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MANAGEMENT
ADVISORY SERVICES
PRACTICE AIDS

SMALL BUSINESS CONSULTING PRACTICE AID

7

Personal Financial Planning: The Team Approach

AICPA American Institute of Certified Public Accountants

NOTICE TO READERS

MAS practice aids are designed as educational and reference material for the members of the Institute and others interested in the subject. They do not establish standards or preferred practices. The standards for MAS practice are set forth in the Statements on Standards for Management Advisory Services (SSMASs) issued by the AICPA. However, since the services described in this series of practice aids are management advisory services, the standards in the SSMASSs should be applied to them, as appropriate.

Various members of the 1985–1986 AICPA MAS Small Business Consulting Practices Subcommittee were involved in the preparation of this practice aid. The members of the subcommittee are listed below.

John C. Foley, *Chairman*

Murray P. Benenson

Charles K. Benn

Allan M. Block

Herbert S. Braun

Richard L. Bullard, III

Paul F. Carroll, Jr.

Byron S. Cherkas

Fred H. Gage

Earl A. Jensen

Leroy Koross

Jerry L. Little

Stephen J. Lux

Jeffrey S. Sands

Thomas J. Stevenson

James B. Wener

The subcommittee gratefully acknowledges the contribution made to the development of this practice aid by Marvin P. Pechter and other former subcommittee members.

Monroe S. Kuttner, *Director*
Management Advisory Services

Monte N. Kaplan, *Technical Manager*
Management Advisory Services

Libby F. Bruch, *Editor/Coordinator*
Management Advisory Services

***Personal Financial
Planning:
The Team Approach***

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Preface

This MAS practice aid is one in a series devoted to the kinds of management advisory services most often provided to a CPA's small business clients. Even though the same services may also be provided to large clients, practitioners' experience indicates that providing advice and assistance to small, closely held businesses often differs from similar engagements with larger clients. Small businesses frequently do not find it cost-effective to have the breadth of financial and accounting expertise that is present in larger businesses. Hence, the nature and depth of the practitioner's gathering and analysis of the data may differ when providing services to small and large businesses. Most important, the personal plans, finances, and desires of the small business owner may have a significant impact on current and future operations of a small business, and the practitioner must take them into consideration when providing advice and assistance.

MAS small business consulting practice aids do not purport to include everything a practitioner needs to know or do to undertake a specific type of service. Furthermore, because engagement circumstances differ, the practitioner's professional judgment may cause him to conclude that an approach described in a particular practice aid is not appropriate.

The Personal Financial Planning Committee (PFPC) was formed in January 1985 to assist practitioners providing personal financial planning services to clients. This guide is a product of several years of effort by the MAS Small Business Consulting Practices Subcommittee, whose work predates the PFPC's formation. Future practice aids on personal financial planning will be issued by the PFPC.

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PART ONE

OVERVIEW

Introduction

In providing services to small business clients, practitioners often discover that the owner-manager's personal finances and financial objectives substantially impact the operations and fortunes of the business itself. For example, if an owner-manager draws a large salary to support a family or life-style at a time when the business cannot afford a substantial cash drain, the financial foundation of the business can weaken. This is a major cause of small business failure.

To help avoid such occurrences, practitioners often advise clients on personal financial planning. The service involves the clients, their families, the practitioner, and other personal financial advisors in evaluating the clients' current and anticipated personal finances and in establishing an appropriate financial plan. It is a team approach to personal financial planning.

The personal financial planning service may establish a need for subsequent MAS engagements. For example, the client may ask the practitioner to help prepare financial projections for the business that would guide the client in safely drawing cash from his operations.

Scope of This Practice Aid

This practice aid provides practitioners with a planning process, procedures, illustrative data forms, and a sample client report to help develop a personal financial plan for small business owner-managers and their families. The nine-step planning process, which includes instructions on using the illustrative client data forms for each step, as appropriate, is as follows:

1. The initial interview
2. The follow-up interview
3. Preparation of the current situation report
4. Review of the current situation report

5. Analysis by the team of advisors
6. Preparation of the plan
7. Review of the plan
8. Implementation of the plan
9. Updating of the plan

The forms are examples of tools the practitioner and client can use in gathering data on the client's personal financial status. Practitioners may design and use their own forms to gather information appropriate for the particular circumstances of the client and the engagement. Using the forms to gather financial data makes the engagement cost-effective. Costs may be further reduced by using microcomputers to design the data forms and to gather, prepare, and analyze the information.

The practitioner's initial functions include determining which data forms the client can prepare and explaining how to use them. The practitioner assists the client in completing the forms, as needed, and then analyzes the data, facilitates the input and services of other advisors (insurance agents, stockbrokers, attorneys, bankers, and so on), and documents the completed financial plan.

The following considerations pertain to the use of this practice aid:

- The general advice and coordination assistance that the practitioner provides to the client are management advisory services and are subject to MAS standards.
- Tax considerations are also very important in personal financial planning. The practitioner may provide tax advice in addition to the MAS services mentioned or may assist the client in selecting another practitioner to provide tax advice. All tax advice is subject to professional tax standards.
- In evaluating a client's assets, the practitioner considers jointly owned property separately and also considers state laws relevant to jointly owned property.
- If involved in the audit, compilation, or review of personal financial statements, the practitioner should refer to the AICPA Audit and Accounting Guide *Personal Financial Statements*.

The Planning Process

In personal financial planning engagements, the CPA assists small business owners in managing family personal financial affairs more effectively. The practitioner coordinates the planning process by obtaining a clear

understanding of the client's present circumstances, putting together a team of advisors, devising a plan to solve problems and take advantage of opportunities, and providing the information necessary to implement and evaluate the financial plan.

The engagement begins when the practitioner meets with the client and the client's family to collect data for the two previous years ending December 31. The client also provides as much information as possible for the current year. The practitioner selects the forms for the client to complete, helps prepare them if necessary, and leaves them with the family so that they may review them and add any missing information.

Once all the basic information has been collected, the family and the practitioner meet again to review the material and discuss the family's plans in general terms. The practitioner then prepares the current situation report. When the report is complete, the client, the practitioner, and any other requested advisors meet to review the report and decide which advisors will be involved in its review and analysis. The practitioner then sends the report to the chosen advisors so that they can identify problems and opportunities and develop recommendations.

When the advisors return their recommendations, the practitioner reviews them and determines if any conflicts need to be resolved. If so, the practitioner works on resolving the conflicts before preparing the plan. When the practitioner has completed the plan, he, the client, and the other advisors meet for a final review and a discussion of the implementation process. They agree on what steps to take and develop a more detailed timetable.

The practitioner evaluates and revises the plan annually by collecting current information and updating the plan to show changes from the previous year. He sends the plan to the other advisors for analysis and incorporates new recommendations, if appropriate. Finally, all the parties meet to review the updated plan and discuss what actions to take during the coming year.

With this approach, the client develops a better understanding of his financial future and becomes more aware of how advisors can help him realize his objectives. Likewise, the advisors gain a better understanding of the client's situation and can serve him more effectively. The sections that follow describe the planning process in detail.

The Initial Interview

The initial interview has two purposes: to introduce the client to the planning approach and to start the data collection process, which consists of selecting forms and recording available information. The interview begins with a discussion of the underlying concepts, as outlined previously in this practice aid. As part of this discussion, the practitioner explains

the final report to the client (see part three). The client needs to understand what is included in the report and how the different components will be prepared.

Once the client understands the approach, the practitioner explains the data collection process. Using the *summary interview* form (see page 13 for a sample), the practitioner describes the different forms and their purposes. He then reviews the *list of supporting documents* and identifies those the client has available. The practitioner tells the client how to file these forms and the supporting documents to facilitate preparation of the plan and analysis by the various advisors.

The practitioner then reviews the general instructions for preparing the selected forms with the client. At this point he explains that the client needs to collect actual figures for the two previous years and the figures to date for the current year. The figures for the two previous years should be as of December 31 to permit a tie-in with tax information and to facilitate year-to-year comparisons. The client begins by preparing the basic information forms. He prepares one *general family information* form for the family as a whole and a *personal information* form for each member of the family. Similarly, he prepares an *advisor information* form for each advisor.

Collecting *net worth* information begins with a review of the summary interview form and a discussion of the types of information to gather. Then the practitioner reviews and prepares the individual forms with the client, beginning with *cash* and proceeding through the list. Each client will not necessarily use all the forms. The practitioner and the client handle *risk analysis* information in a similar manner, first reviewing the summary interview form and then preparing the individual forms.

The practitioner and the client begin the *income/expenses analysis* by preparing a separate *income* form for each source of income. The practitioner and the family work together to decide how best to categorize members' expenses, and then they prepare an *expense* form for each category. Frequently, the family members will not be able to identify how they spent a significant portion of their income. If that is the case, the practitioner can use an *other* category to bring things into balance and can encourage the family to keep more detailed records in the future.

In the straightforward *income tax analysis*, the practitioner transfers the figures from the individual's prior-year tax return to the appropriate place on the *income tax summary*. The practitioner then reviews the projected income and expenses developed in the previous step to determine which figures need to be adjusted for the current year.

The *cash flow analysis* may be a little difficult for some families to understand, because initially they may not see how it differs from the income/expenses analysis. The practitioner might point out that this analysis deals with cash receipts and expenditures that are not ongoing—

for example, the sale of stock, the purchase of a new car, a bequest from the estate of a relative, or a loan from a bank. Again, the practitioner may need to create an *other* category to account for the uses the family cannot specifically identify.

The *retirement analysis*, *disability analysis*, and *estate analysis* use the information developed in the preceding steps. The practitioner examines each income and expense item to determine how retirement, disability, or death would affect it. He also considers the disposition of assets and liabilities and the use of insurance. From these analyses come the projections that are used to complete the various forms. The practitioner will revise these figures as he or advisors who specialize in these areas perform more in-depth analyses.

The practitioner transfers the summary figures to the *overall financial profile summary*, which provides the client with an overview of the current situation and begins to identify existing opportunities and problems requiring solutions. The practitioner may find that some of the information needed to complete the forms will not be available at the initial interview. He would clearly identify the missing information so that the family can collect it and have it available for the follow-up interview. The practitioner may also leave the file with the family so that they may review the information and possibly add to it.

Finally, the practitioner sets a tentative date for the follow-up interview. Two or three weeks are usually adequate for the family to collect the missing information and to think of other items to include in the analysis.

The Follow-up Interview

In the follow-up interview the practitioner reviews the forms and asks the client and his family clarifying questions. This is to ensure that all the required information is available and has been properly recorded. As with the initial interview, the practitioner starts with the personal information and proceeds in sequence through all the forms.

The interview also provides the practitioner with the subjective information needed to properly prepare the current situation report. The practitioner explains to the family the process that will be used in preparing the report. The practitioner may also indicate that he may be calling to clarify a point, get some additional information, or answer any questions the family may have. Finally, he sets a tentative date for reviewing the current situation report.

Preparation of the Current Situation Report

In the current situation report, the practitioner translates the information from the various forms into a concise and coherent report reflecting the

client's present financial circumstances. To do this, the practitioner organizes the forms and prepares the supporting text. On completion of the report, the practitioner sends the client a copy to review before the next meeting.

Review of the Current Situation Report

The practitioner and the client meet to review the contents of the current situation report from two points of view. First they review the figures to ensure their accuracy. Then they review the text to verify that it reflects the client's goals and his desired approach for attaining them.

As the practitioner and client identify specific opportunities and problems, they discuss the competence of the existing advisors to determine if the advisors have the expertise to participate in the engagement. If they do not, the practitioner suggests other potential advisors and encourages the client to meet with them to determine if they should participate.

Analysis by the Team of Advisors

Each advisor receives a copy of the current situation report, reviews it, and carefully analyzes the portion relating to his area of expertise. He may wish to use his own resources to develop supporting analyses and would contact the client or the practitioner to obtain additional information. After completing the analysis, the advisor prepares a memo summarizing the problems and opportunities and discussing his recommendations. He sends the memo, along with copies of any supporting documents, to the practitioner.

Preparation of the Plan

As the practitioner receives the advisors' memos, he reviews each one and then files it. After receiving all the memos, he reviews their recommendations for consistency and resolves any conflicts before taking further steps. The practitioner then prepares the *summary of recommendations* form and the supporting text, as well as text detailing the effects the recommendations will have on the different aspects of the client's financial situation.

Review of the Plan

The advisors meet to review the plan and to discuss the implementation of the recommendations. The practitioner begins the meeting by reviewing the personal financial plan and providing a brief recap of the process

used in its preparation. The individual advisors then briefly discuss their recommendations, the costs involved, and the timetable for implementing the recommendations. The practitioner monitors the discussion and prepares a memo outlining the decisions made.

Implementation of the Plan

Individual advisors usually undertake implementation. The practitioner monitors implementation activities so that everything is done in a timely manner.

Updating of the Plan

In updating the plan as needed, the practitioner prepares a draft revision and meets with the family to collect current information. After reviewing the new data and outlining the significant changes, the practitioner prepares a memo covering the significant changes and sends it to the client and all the advisors.

The advisors review the memo, identify any new problems and opportunities, and then make their recommendations. They add any changes that they are aware of but that are not reflected in the practitioner's memo. The practitioner revises the plan accordingly and sends copies to the client and the advisors.

The practitioner next arranges a meeting with the advisors to discuss their recommendations, the costs involved, and the timetable for implementing the recommendations and the follow-up review. Finally, the practitioner prepares a memo outlining the decisions made.

The Practitioner's Relationship to Other Professionals

Underlying the team approach to personal financial planning illustrated in this practice aid is the concept that various skills can be integrated to support the client in managing his financial affairs. The practitioner considers all input from the client's accountant, attorney, banker, insurance agent, real estate broker, stockbroker, and trust officer. To provide the client with the maximum benefit, the practitioner needs to—

1. Help select a team of advisors with the skills to meet the client's specific needs.
2. Help the advisors understand the client's overall needs.
3. Integrate the actions of the individual advisors into an overall plan.

The practitioner begins the process by developing the current situation report, which organizes the basic facts about the client's situation and guides the practitioner in helping the client select a team of advisors.* Because choosing the right advisors is critical to the overall success of the engagement, the practitioner works closely with the client in making sound selections. In addition, each advisor needs to develop a good relationship with the client as well as with the other advisors.

The current situation report also provides each advisor with the basic information required to analyze the client's needs from a particular perspective. Depending on the complexity of the situation, the practitioner may send each advisor a copy of the report, talk with each individually, or meet with all of them as a group. Each advisor prepares recommendations based on a particular area of expertise and then returns them to the practitioner.

Frequently the client does not have the resources to implement all the actions proposed by the various advisors. The practitioner, therefore, works with the client to determine which actions are most critical and helps allocate resources to implement those actions on a timely basis.

Fee Arrangements

The practitioner can address fees by billing the client for his hours and letting the other professionals do likewise. However, this approach leaves the client exposed to the possibility that one of the advisors will do and bill more than required. As an alternative, the practitioner can discuss the fee arrangement with the other advisors and give the client an estimate for the entire planning procedure.

Conclusion

Personal financial planning serves as an important way to help a small business client overcome some of the less visible challenges to operating a successful ongoing business. The planning process described provides the practitioner with one technique for assisting a client in this area. Practitioners may choose to use other approaches. This practice aid presents the development of a personal financial plan as an MAS en-

*The client may wish to consider advisors with whom he has an existing relationship.

agement in which the practitioner acts as a coordinator and advisor. A practitioner may also function as an overall financial planner, not as a coordinator of the advice of others outside the firm.

The steps may be carried out in different ways, using a variety of meeting arrangements, letters, and phone calls between the client, the advisors, and the practitioner. Special meetings are desirable, as is the involvement of the client's family members and other advisors.

A practitioner who helps develop a rounded, effective plan by serving as a coordinator as well as an advisor, as illustrated in this aid, provides a valuable service to clients.

PART TWO

**ILLUSTRATIVE DATA FORMS AND
INSTRUCTIONS FOR THE CLIENT**

General Instructions

Collecting and organizing basic information about the client and his family are the keys to successfully developing a personal financial plan. The financial planning file and the forms described in the following pages have been designed to facilitate this process.

While the illustrative client data forms are designed to be completed by the client or practitioner, the instructions corresponding to each form are chiefly intended to familiarize the practitioner with the planning technique. The practitioner would then advise and instruct the client on how to complete the selected forms during the initial interview phase of the planning process.

The summary interview form and the individual forms are used to control the data collection and organization process. On the summary interview form the practitioner indicates the number of each type of form that has been prepared for the client. The practitioner uses the list of *supporting documents form* to organize the documents submitted by the client. If appropriate, the practitioner makes copies of the documents so that they can become a permanent part of the client's file.

The forms in the 01 through 09 series are used to collect the basic data. Each series corresponds to a section of the final report. The final two forms (1001 and 1101) are used to develop the overall summary and the summary of recommendations.

Control Forms

0001

Summary Interview Instructions

Purpose: *To control the forms used in gathering information about the client.*

Procedure:

1. As each form is completed, enter the number of forms of that type that are used and place the date prepared in the *P* column under *Status*. If supporting documents are obtained, indicate how many in that column.
2. When the forms have been completed and reviewed, place the date reviewed in the *R* column under *Status*.
3. File the document in the financial planning file.

Summary Interview

0001

Name _____ Soc. sec. no. _____ Page ____ of ____

| <u>Category and Form</u> | <u>Quantity Used</u> | <u>Status</u> | | <u>Supporting Documents</u> |
|-------------------------------------------|--------------------------|---------------|----------|---------------------------------|
| | | <u>P</u> | <u>R</u> | |
| Personal information | | | | |
| 0101 General family information | _____ | _____ | _____ | _____ |
| 0102 Personal information | _____ | _____ | _____ | _____ |
| 0103 Advisor information | _____ | _____ | _____ | _____ |
| Net worth analysis | | | | |
| 0201 Cash | _____ | _____ | _____ | _____ |
| 0202 Certificates of deposit and bonds | _____ | _____ | _____ | _____ |
| 0203 Securities | _____ | _____ | _____ | _____ |
| 0204 Business investments | _____ | _____ | _____ | _____ |
| 0205 Real estate | _____ | _____ | _____ | _____ |
| 0206 Retirement plan | _____ | _____ | _____ | _____ |
| 0207 Other assets | _____ | _____ | _____ | _____ |
| 0208 Liabilities | _____ | _____ | _____ | _____ |
| 0209 Net worth summary | _____ | _____ | _____ | _____ |
| Risk analysis | | | | |
| 0301 Property and casualty insurance | _____ | _____ | _____ | _____ |
| 0302 Automobile insurance | _____ | _____ | _____ | _____ |
| 0303 Liability insurance | _____ | _____ | _____ | _____ |
| 0304 Health insurance | _____ | _____ | _____ | _____ |
| 0305 Life insurance | _____ | _____ | _____ | _____ |
| 0306 Disability insurance | _____ | _____ | _____ | _____ |
| 0307 Risk analysis summary | _____ | _____ | _____ | _____ |

0001 *Summary Interview (cont.)*

| <u>Category and Form</u> | <u>Quantity Used</u> | <u>Status</u> | | <u>Supporting Documents</u> |
|-------------------------------------|--------------------------|---------------|----------|---------------------------------|
| | | <u>P</u> | <u>R</u> | |
| Income/expenses analysis | | | | |
| 0401 Income | _____ | _____ | _____ | _____ |
| 0402 Living expenses | _____ | _____ | _____ | _____ |
| 0403 Income/expenses summary | _____ | _____ | _____ | _____ |
| Income tax analysis | | | | |
| 0501 Income tax summary | _____ | _____ | _____ | _____ |
| Cash flow analysis | | | | |
| 0601 Other sources of cash | _____ | _____ | _____ | _____ |
| 0602 Uses of cash | _____ | _____ | _____ | _____ |
| 0603 Cash flow summary | _____ | _____ | _____ | _____ |
| Retirement analysis | | | | |
| 0701 Retirement income/ expenses | _____ | _____ | _____ | _____ |
| 0702 Retirement summary | _____ | _____ | _____ | _____ |
| Disability analysis | | | | |
| 0801 Disability income/ expenses | _____ | _____ | _____ | _____ |
| 0802 Disability summary | _____ | _____ | _____ | _____ |

| <u>Category and Form</u> | <u>Quantity Used</u> | <u>Status</u> | | <u>Supporting Documents</u> |
|-------------------------------------------|--------------------------|---------------|----------|---------------------------------|
| | | <u>P</u> | <u>R</u> | |
| Estate analysis | | | | |
| 0901 Estate valuation | _____ | _____ | _____ | _____ |
| 0902 Estate tax analysis | _____ | _____ | _____ | _____ |
| 0903 Estate income/expenses | _____ | _____ | _____ | _____ |
| 0904 Estate income/expenses summary | _____ | _____ | _____ | _____ |
| Summary analysis | | | | |
| 1001 Overall financial profile summary | _____ | _____ | _____ | _____ |
| Recommendations | | | | |
| 1101 Summary of recommendations | _____ | _____ | _____ | _____ |

0002

List of Supporting Documents Instructions

Purpose: *To control the supporting documents provided by the client.*

Procedure:

1. When you receive a document from the client, record the date in the appropriate column. If you receive multiple documents of one type, list them individually on the blank lines.
2. If the document is a copy, write *copy* in the *Date Returned* column.
3. In the *Location* column, record where the document is filed.
4. Sign the form and give a copy to the client.
5. When you return any documents that you took to copy, have the client sign the form, indicating that you returned the documents.

List of Supporting Documents

0002

Name _____ Soc. sec. no. _____ Page ____ of ____

| <u>Document</u> | <u>Location</u> | <u>Date Received</u> | <u>Date Returned</u> |
|-----------------------|-----------------|--------------------------|--------------------------|
| Husband's will | _____ | _____ | _____ |
| Wife's will | _____ | _____ | _____ |
| Income tax return | _____ | _____ | _____ |
| Insurance policies | _____ | _____ | _____ |
| Property and casualty | _____ | _____ | _____ |
| Automobile | _____ | _____ | _____ |
| Liability | _____ | _____ | _____ |
| Health | _____ | _____ | _____ |
| Life | _____ | _____ | _____ |
| Disability | _____ | _____ | _____ |
| Trust agreements | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| Buy-Sell agreements | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |

I received the above documents for inclusion in the financial planning file.

Date _____ Signature _____

I received from the personal financial planning team the originals provided to make copies for inclusion in the financial planning file.

Date _____ Signature _____

Personal Information Forms

0101

General Family Information Instructions

Purpose: *To record general information about the family.*

Procedure:

1. Record the family name and list the family members included in the analysis.
2. Record the address and the phone numbers.
3. Under *Notes*, briefly describe any areas of interest shared by two or more family members. This information helps in understanding the effects of the family's life-style on personal financial planning.

General Family Information

0101

Family name _____ Page ____ of ____

Family members

| | |
|-------|-------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

Phone numbers: Home _____ Husband's office _____

Wife's office _____

Home address _____

Notes

**Personal Information
Instructions**

Purpose: *To record general information about each member of the client's family.*

Procedure:

1. Record the individual's name, birth date, and social security number.
2. Outline the individual's current situation. If the individual works or is away at school, include the name of the organization or school, the position or grade, and the address.
3. Outline the individual's goals.
4. If the individual is a spouse or an older child, he or she may help prepare this form.

Personal Information

0102

Family name _____ Page ____ of ____

First name and middle initial _____

Birth date _____ Soc. sec. no. _____

Current situation _____

Goals _____

**Advisor Information
Instructions**

Purpose: *To record information about each of the client's advisors.*

Procedure:

1. Record the advisor's function, for example, life insurance agent, accountant, or lawyer.
2. Record each advisor's name, business organization, address, and both home and office phone numbers.
3. Record the approximate date of the first professional contact with each advisor.
4. Describe the types of services the advisor has provided during the past two years.

Advisor Information

0103

Name _____ Soc. sec. no. _____ Page ____ of ____

Advisor's name _____

Function _____

Organization _____

Address _____

Phone numbers: Home _____ Office _____

Initial contact date _____

Services provided _____

Notes

Net Worth Analysis Forms

0201

Cash Instructions

Purpose: *To record information about the client's checking and savings accounts.*

Procedure:

1. Record the names of financial institutions, the types of accounts, and the interest rate of each.
2. Using either the checkbook or an appropriate bank statement for each account, determine the balance at the end of the two previous years.
3. In the *Notes* section, indicate any restrictions on each account and outline the assumptions made in determining the balances.
4. If more than one page is required, carry the subtotal forward to the next page. Indicate the number of pages at the top of the form.
5. Record the totals on the net worth summary form (0209).

Cash**0201**

Name _____ Soc. sec. no _____ Page ____ of ____

| <u>Financial Institution</u> | <i>Type of Account and Interest Rate</i> | <i>Balance as of December 31</i> | |
|------------------------------|----------------------------------------------------------|--------------------------------------|-----------------|
| | | <u>19X1</u> | <u>19X2</u> |
| _____ | _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| Total | | <u>\$ _____</u> | <u>\$ _____</u> |

Notes

Note: On this data collection form and the others that follow, 19X1 refers to the year before last, 19X2 refers to the immediately previous year, 19X3 is the current year, and 19X4 and 19X5 refer to future years.

0202

**Certificates of Deposit and Bonds
Instructions**

Purpose: *To record information about the client's certificates and bonds.*

Procedure:

1. Record the name of the issuing organization, the interest rate, and the maturity date.
2. For a bond, record the face value next to the name of the organization.
3. Record the value at the end of prior years.
4. Record the totals on the net worth summary form (0209).

Certificates of Deposit and Bonds**0202**

Name _____ Soc. sec. no. _____ Page ____ of ____

| <u>Organization (Face Amount)</u> | <u>Interest Rate</u> | <u>Maturity</u> | <u>Value as of December 31</u> | |
|-----------------------------------|--------------------------|-----------------|------------------------------------|-----------------|
| | | | <u>19X1</u> | <u>19X2</u> |
| _____ | _____ | _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| Total | | _____ | <u>\$ _____</u> | <u>\$ _____</u> |

Notes

**Securities
Instructions**

Purpose: *To record information about the client's securities.*

Procedure:

1. For each security, record the name of the issuing company, the number of shares, the date purchased, and the cost. If the client purchased shares of one security at different times, record each purchase on a separate line. If the stockbroker has the information, record the total and include the list with the supporting documents.
2. Record the value of each security for the previous two years.
3. If the client sold a security owned in a prior year, record the selling date.
4. Record the totals on the net worth summary form (0209).

Securities

0203

Name _____ Soc. sec. no. _____ Page ____ of ____

| <i>Issuing Company</i> | <i>Date Purchased</i> | <i>Date Sold</i> | <i>Cost or Basis</i> | <i>Number of Shares</i> | <i>Value as of December 31</i> | |
|----------------------------|---------------------------|----------------------|--------------------------|---------------------------------|------------------------------------|-------------|
| | | | | | <i>19X1</i> | <i>19X2</i> |
| _____ | _____ | _____ | _____ | _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| Total | | | | | \$ _____ | \$ _____ |

Notes

**Business Investments
Instructions**

Purpose: *To record information about the client's personal business investments.*

Procedure:

1. Record the name of the organization. Outline the nature of the investment (including the date on which the client made the investment), the cost, the basis used in determining the current value, and add any other pertinent information.
2. Record the value of the investment for the previous two years.
3. If there are multiple investments, use a separate sheet for each investment and record their total value on the first of the business investment forms.
4. Include accounts and notes receivable on the business investment forms as if they were business investments.
5. Obtain copies of the documents, including financial statements that describe the investments.
6. Record the amounts of each investment on the net worth summary form (0209). If there are several investments of the same type, they may be grouped before recording the figures on the summary.

Business Investments**0204**

Name _____ Soc. sec. no. _____ Page ____ of ____

| | <i>Value as of December 31</i> | |
|--------------------|------------------------------------|-------------|
| Organization _____ | <u>19X1</u> | <u>19X2</u> |
| _____ | \$ _____ | \$ _____ |

Nature of the investment _____

Date _____

Cost _____

Basis for determining current value _____

Other pertinent information _____

Notes

**Real Estate
Instructions**

Purpose: *To record information about the client's real estate holdings.*

Procedure:

1. Using a separate sheet for each property, record its location, improvements, and current status.
2. Record the cost of the property and its accumulated depreciation to date.
3. Record both the book value and the market value for the two previous years.
4. Record the outstanding debt, if any, and the terms related to it.
5. Record the totals of all real estate holdings on the net worth summary form (0209).

Real Estate

0205

Name _____ Soc. sec. no. _____ Page ____ of ____

Property's location (and name, if any) _____

Improvements _____

Current status _____

| | <i>Value as of December 31</i> | |
|--------------------------|------------------------------------|-----------------|
| | <u>19X1</u> | <u>19X2</u> |
| Cost | \$ _____ | \$ _____ |
| Accumulated depreciation | _____ | _____ |
| Book value | _____ | _____ |
| Market value | _____ | _____ |
| Debt | _____ | _____ |
| Finance payments | _____ | _____ |
| Rental income (if any) | _____ | _____ |
| Operating expenses | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Net cash receipts | _____ | _____ |
| Depreciation | _____ | _____ |
| Net income (expenses) | <u>\$ _____</u> | <u>\$ _____</u> |

**Retirement Plan
Instructions**

Purpose: *To record the client's retirement planning information.*

Procedure:

1. If the husband and wife are members of different plans, prepare a separate sheet for each.
2. Record the employer's name and the type of plan.
3. Record the balance, annual contribution, and percent vested.
4. Record the projected balance at the time of retirement.
5. Record the projected payment and the method of payment.

Retirement Plan**0206**

Name _____ Soc. sec. no. _____ Page ____ of ____

Employer _____

Type of plan _____

| | <i>Value as of December 31</i> | |
|---------------------------------|------------------------------------|-------------|
| | <u>19X1</u> | <u>19X2</u> |
| Balance | \$ _____ | \$ _____ |
| Annual contribution | _____ | _____ |
| Percent vested | _____ % | _____ % |
| Projected balance at retirement | _____ | _____ |
| Pay-out method | | |
| Lump sum | _____ | _____ |
| Annual | _____ | _____ |

Other related benefits _____

Notes

**Other Assets
Instructions**

Purpose: *To record the client's other assets.*

Procedure:

1. Describe each asset.
2. Record its cost.
3. Record its value for the two previous years.
4. Record the totals of all assets on the summary net worth form (0209).
If one or more of the items are significant, record each separately on the form.

Other Assets**0207**

Name _____ Soc. sec. no. _____ Page ____ of ____

| <u>Description</u> | <u>Cost</u> | <u>Value as of</u> <u>December 31</u> | |
|--------------------|-------------|------------------------------------------|-----------------|
| | | <u>19X1</u> | <u>19X2</u> |
| _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| Total | | <u>\$ _____</u> | <u>\$ _____</u> |

**Liabilities
Instructions**

Purpose: *To record the client's liabilities.**

Procedure:

1. For each liability, record the creditor, the type (installment, mortgage, bank notes), the original amount, the balance, the interest rate, and the terms.
2. Record in the *Notes* section any special provisions, and obtain copies of supporting documents, if appropriate.
3. Record the totals on the net worth summary form (0209).

*Tax liabilities must be prepared in accordance with the AICPA Audit and Accounting Guide *Personal Financial Statements*.

Liabilities**0208**

Name _____ Soc. sec. no. _____ Page ____ of ____

| <u>Creditor</u> | <u>Type</u> | <u>Rate</u> | <u>Terms</u> | <u>19X1</u> | <u>19X2</u> |
|-----------------|-------------|-------------|--------------|-----------------|-----------------|
| _____ | _____ | _____ | _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ | _____ |
| Total | | | | <u>\$ _____</u> | <u>\$ _____</u> |

Notes

Net Worth Summary Instructions

Purpose: *To summarize the information from the other net worth analysis forms.*

Procedure:

1. Transfer the appropriate figures from the other forms.
2. Total the amounts to determine the net worth.
3. Transfer the figures to the overall financial profile summary form (1001).
4. File the forms and the supporting documents in the financial planning file.

Note: Refer to the AICPA Audit and Accounting Guide *Personal Financial Statements* for guidance on the preparation of the net worth summary and other financial statements.

Net Worth Summary**0209**

Name _____ Soc. sec. no. _____ Page ____ of ____

| | <i>Value as of December 31</i> | |
|------------------------|------------------------------------|-----------------|
| | <u>19X1</u> | <u>19X2</u> |
| <i>Assets</i> | | |
| Current | | |
| Cash | \$ _____ | \$ _____ |
| Certificates and bonds | _____ | _____ |
| Securities | _____ | _____ |
| [Other] | _____ | _____ |
| Subtotal | _____ | _____ |
| Business investments | | |
| _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Subtotal | _____ | _____ |
| Other assets | | |
| Real estate | \$ _____ | \$ _____ |
| Retirement plan | _____ | _____ |
| [Other] | _____ | _____ |
| Total assets | \$ _____ | \$ _____ |
| <i>Liabilities</i> | | |
| Current | | |
| _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Subtotal | _____ | _____ |
| Long-term | | |
| _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| Subtotal | _____ | _____ |
| Total liabilities | \$ _____ | \$ _____ |
| Net worth | <u>\$ _____</u> | <u>\$ _____</u> |

Risk Analysis Forms

0301

Property and Casualty Insurance Instructions

Purpose: *To record information about the client's property and casualty insurance.*

Procedure:

1. Prepare a separate sheet for each policy. Record the name of the insurance company, the policy number, and the annual premium for the previous two years.
2. Record the assets that are insured and the amount of insurance on each. Make notes on any special provisions.
3. Obtain a copy of each policy for the files.
4. Record the figures on the risk analysis summary form (0307).

Property and Casualty Insurance

0301

Name _____ Soc. sec. no. _____ Page ____ of ____
Insurance company _____ Policy no. _____

| | <u>December 31</u> | |
|----------------|--------------------|-------------|
| | <u>19X1</u> | <u>19X2</u> |
| Annual premium | \$ _____ | \$ _____ |

| <u>Assets Covered</u> | <u>Insurance Amount</u> | |
|-----------------------|-------------------------|----------|
| _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Total | \$ _____ | \$ _____ |

Notes

**Automobile Insurance
Instructions**

Purpose: *To record information about the client's automobile insurance.*

Procedure:

1. Record the make, model, year, and estimated value of the automobile.
2. Prepare a separate sheet for each policy. Record the name of the insurance company, the policy number, and the annual premium for the previous two years.
3. Record information on basic components of the coverage. Note any special provisions.
4. Obtain a copy of the policy for the financial planning file.
5. Record the figures on the risk analysis summary form (0307).

Automobile Insurance**0302**

Name _____ Soc. sec. no. _____ Page ____ of ____

Insurance company _____ Policy no. _____

Automobile make _____ Automobile model _____

Automobile year _____ Estimated value _____

| | <u>December 31</u> | |
|----------------|--------------------|-------------|
| | <u>19X1</u> | <u>19X2</u> |
| Annual premium | \$ _____ | \$ _____ |
| Deductible | \$ _____ | \$ _____ |

| | <u>Insurance Amount</u> | |
|---------------------------|-------------------------|-----------|
| | <u>\$</u> | <u>\$</u> |
| Comprehensive | _____ | _____ |
| Collision | _____ | _____ |
| Property damage liability | _____ | _____ |
| Bodily injury liability | _____ | _____ |
| Uninsured motorist | | |
| Bodily injury (PP)* | _____ | _____ |
| (PO)* | _____ | _____ |
| Property damage (PO)* | _____ | _____ |

Notes

*PP = per person; PO = per occurrence.

**Liability Insurance
Instructions**

Purpose: *To record information about the client's liability insurance.*

Procedure:

1. Record the name of the insurance company, the policy number, and the annual premium for the previous two years. Prepare a separate sheet for each policy. If appropriate, ask about professional liability insurance.
2. Record the amount of insurance coverage provided.
3. Obtain a copy of the policy for the financial planning file.
4. Record the figures on the risk analysis summary form (0307).

Liability Insurance**0303**

Name _____ Soc. sec. no. _____ Page ____ of ____

Insurance company _____ Policy no. _____

| | <u>December 31</u> | |
|----------------|--------------------|-------------|
| | <u>19X1</u> | <u>19X2</u> |
| Annual premium | \$ _____ | \$ _____ |

| <u>Categories of Coverage</u> | <u>Insurance Amount</u> | |
|-------------------------------|-------------------------|-----------------|
| _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Total | <u>\$ _____</u> | <u>\$ _____</u> |

Notes

0304

**Health Insurance
Instructions**

Purpose: *To record information about the client's health insurance.*

Procedure:

1. Record the name of the insurance company, the policy number, and the annual premium for the previous two years. If the client's employer pays a portion of the premium, note the total premium as well as the amount paid by the client. If a different policy covers the spouse's insurance, prepare a separate form.
2. Describe the coverage.
3. Obtain a copy of the policy for the financial planning file.
4. Record the figures on the risk analysis summary form (0307).

Health Insurance

0304

Name _____ Soc. sec. no. _____ Page ____ of ____

Insurance company _____ Policy no. _____

| | <u>December 31</u> | |
|----------------|--------------------|-------------|
| | <u>19X1</u> | <u>19X2</u> |
| Annual premium | \$ _____ | \$ _____ |

| <u>Description of the Coverage</u> | <u>Insurance Amount</u> | |
|------------------------------------|-------------------------|----------|
| Deductible | \$ _____ | \$ _____ |
| Per day room and board | _____ | _____ |
| Maternity benefits | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |

Notes

**Life Insurance
Instructions**

Purpose: *To record information about the client's life insurance.*

Procedure:

1. Record the name of the insurance company, the policy number, and the annual premium for the previous two years. If the client's employer pays a portion of the premium, note the total premium as well as the amount paid by the client. If a different policy covers the spouse, prepare a separate form.
2. Record the face amount of the policy.
3. If appropriate, record the cash value, loan balance, and interest rate on the loan.
4. Note any special provisions of the policy.
5. Obtain a copy of the policy for the files.
6. Record the figures on the risk analysis summary form (0307).

Life Insurance

0305

Name _____ Soc. sec. no. _____ Page ____ of ____

Insurance company _____ Policy no. _____

Beneficiary _____ Type _____

Owner _____

| | <i>December 31</i> | |
|---------------|--------------------|-------------|
| | <u>19X1</u> | <u>19X2</u> |
| Premium | \$ _____ | \$ _____ |
| Face amount | \$ _____ | \$ _____ |
| Cash value | _____ | _____ |
| Loan balance | _____ | _____ |
| Interest rate | _____ % | _____ % |

Notes

**Disability Insurance
Instructions**

Purpose: *To record information about the client's disability insurance.*

Procedure:

1. Record the name of the insurance company, the policy number, and the annual premium for the previous two years. If the client's employer pays a portion of the premium, note the total premium as well as the amount paid by the client. If a different policy covers the spouse, prepare a separate form.
2. Define the disability and record the waiting period and the integration level.
3. Record the annual benefit.
4. Obtain a copy of the policy for the files.
5. Record the figures on the risk analysis summary form (0307).

Disability Insurance**0306**

Name _____ Soc. sec. no. _____ Page ____ of ____

Insurance company _____ Policy no. _____

Waiting period _____ Integration level _____

Definition of disability _____

December 3119X119X2

Premium \$ _____ \$ _____

Annual benefit \$ _____ \$ _____

Notes

0307

**Risk Analysis Summary
Instructions**

Purpose: *To summarize information about the client's risk analysis.*

Procedure:

1. Record the separate figures from the other forms.
2. Transfer the figures to the overall financial profile summary form (1001).
3. File all the forms and the supporting documents in the financial planning file.

Risk Analysis Summary

0307

Name _____ Soc. sec. no. _____ Page ____ of ____

| | <u>Insurance Amount</u> | | <u>Annual Premium</u> |
|---------------------------------|-------------------------|-------------|---------------------------|
| | <u>December 31</u> | | |
| | <u>19X1</u> | <u>19X2</u> | |
| Property and casualty insurance | | | \$ _____ |
| Dwelling | \$ _____ | \$ _____ | |
| Detached structure | _____ | _____ | |
| Personal property | _____ | _____ | |
| Other | _____ | _____ | |
| Automobile insurance | | | _____ |
| Comprehensive | _____ | _____ | |
| Collision | _____ | _____ | |
| Property damage liability | _____ | _____ | |
| Bodily damage liability | _____ | _____ | |
| Uninsured motorist | | | |
| Bodily injury | _____ | _____ | |
| Property damage | _____ | _____ | |
| Liability insurance | | | _____ |
| Umbrella | _____ | _____ | |
| Professional | _____ | _____ | |
| Health insurance | | | _____ |
| Deductible | _____ | _____ | |
| Per day room and board | _____ | _____ | |
| Maternity benefit | _____ | _____ | |
| Life insurance | _____ | _____ | _____ |
| Disability insurance | _____ | _____ | _____ |

Notes

Income/Expenses Analysis Forms

0401

Income Instructions

Purpose: *To record the client's income information.*

Procedure:

1. Record the source of each income category and its amount for the previous two years.
2. Obtain copies of agreements and other supporting documents.
3. Transfer the total for each type of income or expense to the income/expenses summary form (0403).

Income

0401

Name _____ Soc. sec. no. _____ Page ____ of ____

| <u>Category of Income</u> | <u>Source</u> | <u>December 31</u> | |
|-------------------------------|---------------|--------------------|-----------------|
| | | <u>19X1</u> | <u>19X2</u> |
| _____ | _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| Total | | <u>\$ _____</u> | <u>\$ _____</u> |

Notes

**Living Expenses
Instructions**

Purpose: *To record information about the client's regular expenses.*

Procedure:

1. Identify expense categories and prepare a separate form for each, or as an alternative, develop a spreadsheet matrix.
2. Record the category title.
3. If the amount is constant per month or paid on an annual basis, record the total for the year in the *Total* row.
4. If the amount varies, review canceled checks and estimate the amount spent each month for the two previous years.
5. Record the total in the *Total* row.
6. Use the *Notes* section to explain any significant changes or any assumptions made in developing the projections.
7. Obtain copies of supporting documents.

Living Expenses

0402

Name _____ Soc. sec. no. _____ Page ____ of ____

Category _____

| <u>Month</u> | <u>December 31</u> | |
|--------------|--------------------|-----------------|
| | <u>19X1</u> | <u>19X2</u> |
| January | \$ _____ | \$ _____ |
| February | _____ | _____ |
| March | _____ | _____ |
| April | _____ | _____ |
| May | _____ | _____ |
| June | _____ | _____ |
| July | _____ | _____ |
| August | _____ | _____ |
| September | _____ | _____ |
| October | _____ | _____ |
| November | _____ | _____ |
| December | _____ | _____ |
| Total | <u>\$ _____</u> | <u>\$ _____</u> |

Notes

**Income/Expenses Summary
Instructions**

Purpose: *To summarize the information from the other income and expenses forms.*

Procedure:

1. Record the amounts from the other income and expenses forms.
2. Total the income and expenses amounts and compute the difference. Determine if the resulting figure is realistic. If not, consider what income or expenses items may have been left out.
3. Transfer the total to the overall financial profile summary form (1001).
4. File the forms and supporting documents in the financial planning file.

Income/Expenses Summary

0403

Name _____ Soc. sec. no. _____ Page ____ of ____

| Income | December 31 | |
|-----------------------|-------------|----------|
| | 19X1 | 19X2 |
| _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Subtotal | _____ | _____ |
| Living expenses | | |
| _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Subtotal | _____ | _____ |
| Net surplus (deficit) | \$ _____ | \$ _____ |

Notes

Income Tax Analysis Form

0501

Income Tax Summary Instructions

Purpose: *To summarize income tax information.*

Procedure:

1. Obtain a copy of the income tax return for the previous two years.
2. Record the figures on the form.
3. Indicate taxes paid for the previous two years.
4. Transfer the totals to the overall financial profile summary form (1001).
5. File the form and the copy of the tax return in the financial planning file.

Note: Many software packages that permit electronic preparation of income tax information are available.

Income Tax Summary**0501**

Name _____ Soc. sec. no. _____ Page ____ of ____

| | <u>December 31</u> | |
|-----------------------|--------------------|-------------|
| | <u>19X1</u> | <u>19X2</u> |
| Gross income | | |
| _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Subtotal | _____ | _____ |
| Business expenses | _____ | _____ |
| Adjusted gross income | _____ | _____ |
| Itemized deductions | | |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Statutory exclusion | _____ | _____ |
| Subtotal | _____ | _____ |
| Exemptions | _____ | _____ |
| Total deductions | _____ | _____ |
| Taxable income | \$ _____ | \$ _____ |
| Taxes due | | |
| Federal | \$ _____ | \$ _____ |
| State | _____ | _____ |
| Total | \$ _____ | \$ _____ |

Cash Flow Analysis Forms

0601

Other Sources of Cash Instructions

Purpose: *To record information about the client's additional sources of cash.*

Procedure:

1. For cash not previously discussed, record the sources and the amounts. If there are several sources of the same type, list them on a single form.
2. In the *Notes* section, provide additional details that might be useful in the analysis. If appropriate, obtain copies of supporting documents.
3. Transfer the figures to the cash flow summary form (0603).

Other Sources of Cash**0601**

Name _____ Soc. sec. no. _____ Page ____ of ____

| <u>Source</u> | <u>December 31</u> | |
|---------------|--------------------|-----------------|
| | <u>19X1</u> | <u>19X2</u> |
| _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Total | <u>\$ _____</u> | <u>\$ _____</u> |

Notes

0602

**Other Uses of Cash
Instructions**

Purpose: *To record information about the client's additional uses of cash.*

Procedure:

1. For expenditures not previously discussed, record the uses and the amounts. If there are several uses of the same type, list them on a single form.
2. In the *Notes* section, provide additional details that might be useful in the analysis. If appropriate, obtain copies of supporting documents.
3. Transfer the figures to the cash flow summary form (0603).

Other Uses of Cash

0602

Name _____ Soc. sec. no. _____ Page ____ of ____

| <u>Use</u> | <u>December 31</u> | |
|------------|--------------------|-----------------|
| | <u>19X1</u> | <u>19X2</u> |
| _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Total | <u>\$ _____</u> | <u>\$ _____</u> |

Notes

**Cash Flow Summary
Instructions**

Purpose: *To summarize the client's cash flow information.*

Procedure:

1. Record the cash balances from the cash form (0201).
2. Record the information from the income (0401) and living expenses (0402) forms in the appropriate places.
3. Record the information from the other sources of cash (0601) and other uses of cash (0602) forms.
4. Total the various columns to determine the net increase or decrease.
5. Record the totals on the overall financial profile summary form (1001).
6. File the forms and supporting documents in the financial planning file.

Cash Flow Summary**0603**

Name _____ Soc. sec. no. _____ Page ____ of ____

| | <u>December 31</u> | |
|---------------------------|--------------------|-------------|
| | <u>19X1</u> | <u>19X2</u> |
| Cash at beginning of year | \$ _____ | \$ _____ |
| Sources of cash | | |
| Income | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Subtotal | _____ | _____ |
| Uses of cash | | |
| Living expenses | \$ _____ | \$ _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| Subtotal | _____ | _____ |
| Net increase (decrease) | \$ _____ | \$ _____ |
| Cash at end of year | \$ _____ | \$ _____ |

Retirement Analysis Forms

0701

Retirement Income/Expenses Instructions

Purpose: *To record information about the client's income and expenses after retirement.*

Procedure:

1. Review the income and expenses items on the income/expenses summary form (0403). If an item will not increase or decrease significantly, record it on the retirement summary form (0702).
2. If some items will change significantly, prepare a retirement income/expenses form for each one. First indicate the category.
3. Record the amounts as you did on the income/expenses summary form.
4. Estimate what the figures will be after retirement and enter them. Make your estimates as of the end of the current year and the end of the next two years.
5. In the *Notes* section, explain the basis for the revised figures. Attach copies of supporting documents.
6. When appropriate advisors analyze these figures, they may adjust them.
7. Transfer the figures to the retirement summary form.

Retirement Income/Expenses**0701**

Name _____ Soc. sec. no. _____ Page ____ of ____

Category _____

*Estimated for [Date] as of
Current Year*

| | <u>12/31/X3</u> | <u>12/31/X4</u> | <u>12/31/X5</u> |
|-----------------------------|-----------------|-----------------|-----------------|
| Estimated at retirement | \$ _____ | \$ _____ | \$ _____ |
| | <u>19X3</u> | <u>19X4</u> | <u>19X5</u> |
| Per income/expenses summary | \$ _____ | \$ _____ | \$ _____ |

Notes

**Retirement Summary
Instructions**

Purpose: *To summarize the retirement information.*

Procedure:

1. Record the income/expenses information from the income/expenses forms (0701).
2. Total the amounts and compute the net excess income (or expenses).
3. Review the reasonableness of the figures.
4. Transfer the figures to the overall financial profile summary form (1001).
5. File the forms and supporting documents in the financial planning file.

Retirement Summary

0702

Name _____ Soc. sec. no. _____ Page ____ of ____

*Estimated for [Date] as of
Current Year**

| | <u>12/31/X3</u> | <u>12/31/X4</u> | <u>12/31/X5</u> |
|-----------------------|-----------------|-----------------|-----------------|
| Income | | | |
| _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| Subtotal | _____ | _____ | _____ |
| Living expenses | | | |
| _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| Subtotal | _____ | _____ | _____ |
| Net surplus (deficit) | <u>\$ _____</u> | <u>\$ _____</u> | <u>\$ _____</u> |

* The estimates do not include adjustments for inflation.

Disability Analysis Forms

0801

Disability Income/Expenses Instructions

Purpose: *To record information about the client's income/expenses after a disability.*

Procedure:

1. Review the income/expenses items on the income/expenses summary form (0403). If an item will not change significantly, record it on the disability summary form (0802).
2. If some items will change significantly, prepare a disability income/expenses form for each one. First indicate the category.
3. Record the figures from the income/expenses summary form.
4. Enter the figures as projected after disability. Make the projections as of the end of the current year and the end of the next two years.
5. In the *Notes* section, explain the basis for the revised figures.
6. When appropriate advisors analyze these figures, they may adjust them.
7. Transfer the figures to the disability summary form.

Disability Income/Expenses**0801**

Name _____ Soc. sec. no. _____ Page ____ of ____

Category _____

*Estimated After Six Months as of
Current Year*

| | <u>12/31/X3</u> | <u>12/31/X4</u> | <u>12/31/X5</u> |
|-----------------------------|-----------------|-----------------|-----------------|
| Estimated at disability | \$ _____ | \$ _____ | \$ _____ |
| | <u>19X3</u> | <u>19X4</u> | <u>19X5</u> |
| Per income/expenses summary | \$ _____ | \$ _____ | \$ _____ |

Notes

**Disability Summary
Instructions**

Purpose: *To summarize the client's disability information.*

Procedure:

1. Record the income/expenses information from the disability income/expenses forms (0801).
2. Total the figures and compute the net surplus or deficit.
3. Review the reasonableness of the figures.
4. Transfer the numbers to the overall financial profile summary form (1001).
5. File the forms and supporting documents in the financial planning file.

Disability Summary**0802**

Name _____ Soc. sec. no. _____ Page ____ of ____

*Estimated After Six Months as of
Current Year**

| | <u>12/31/X3</u> | <u>12/31/X4</u> | <u>12/31/X5</u> |
|--------------------------|-----------------|-----------------|-----------------|
| Income | | | |
| Social security benefits | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| Subtotal | _____ | _____ | _____ |
| Living expenses | | | |
| _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| Subtotal | _____ | _____ | _____ |
| Excess income (expenses) | <u>\$ _____</u> | <u>\$ _____</u> | <u>\$ _____</u> |

* The estimates do not include adjustments for inflation.

Estate Analysis Forms

0901

Estate Valuation Instructions

Purpose: *To determine and record the value of the client's estate.*

Procedure:

1. Determine the categories for items that require valuation—for example, insurance policies, a buy-sell agreement, and the interest in a trust.
2. Prepare a separate form for each category.
3. Enter the benefit amount, assuming the husband died on December 31 of the current year and December 31 of the next two years.
4. After preparing the forms for the husband, prepare a second set assuming the wife dies first.
5. Obtain copies of the supporting documents for the financial planning file.
6. Transfer the totals to the estate tax analysis form (0902).

Estate Valuation

0901

Name _____ Soc. sec. no. _____ Page ____ of ____
Category _____

| <u>Description</u> | <i>Estimated at Death (of Husband or Wife) as of Current Year</i> | | |
|--------------------|-----------------------------------------------------------------------|-----------------|-----------------|
| | <u>12/31/X3</u> | <u>12/31/X4</u> | <u>12/31/X5</u> |
| _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| Total | <u>\$ _____</u> | <u>\$ _____</u> | <u>\$ _____</u> |

Notes

**Estate Tax Analysis
Instructions**

Purpose: *To summarize the client's estate tax information.*

Procedure:

1. Record the information from the estate valuation forms (0901).
2. Estimate the deductions.
3. Review the will and determine the amount of the estate to be transferred via the tax-free pass-through.
4. Compute the tax and the amount of the estate available for distribution.
5. Transfer the figures to the appropriate estate income/expenses form (0903).

Estate Tax Analysis

0902

Name _____ Soc. sec. no. _____ Page ____ of ____

| | <i>Husband Predeceases</i> | | <i>Wife Predeceases</i> | |
|------------------------------------|--------------------------------|-----------------|-----------------------------|-----------------|
| | <u>19X3</u> | <u>19X4</u> | <u>19X3</u> | <u>19X4</u> |
| Assets | | | | |
| Insurance benefits | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| Net worth | _____ | _____ | _____ | _____ |
| Subtotal | _____ | _____ | _____ | _____ |
| Deductions | | | | |
| Funeral expenses | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| Administrative expenses | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| Subtotal | _____ | _____ | _____ | _____ |
| Adjusted gross estate | _____ | _____ | _____ | _____ |
| Estate taxes | _____ | _____ | _____ | _____ |
| Available for distribution | \$ <u>_____</u> | \$ <u>_____</u> | \$ <u>_____</u> | \$ <u>_____</u> |
| Computation of estate taxes | | | | |
| Adjusted gross estate | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| Tax-free pass-through | _____ | _____ | _____ | _____ |
| Taxable estate | \$ <u>_____</u> | \$ <u>_____</u> | \$ <u>_____</u> | \$ <u>_____</u> |
| Gross estate tax | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| Less credits | _____ | _____ | _____ | _____ |
| Estate taxes | \$ <u>_____</u> | \$ <u>_____</u> | \$ <u>_____</u> | \$ <u>_____</u> |

**Estate Income/Expenses
Instructions**

Purpose: *To record information about the client's income and expenses after the death of one or both parents.*

Procedure:

1. Estimate the income generated by the estate's assets. For simplicity, assume that income-producing assets will earn 10 percent a year.
2. Review the income and expenses items on the income/expenses summary form (0403). If an item will not change significantly, record it on the estate income/expenses summary form (0904).
3. Prepare a separate form for each item that will change significantly. Begin by indicating the category.
4. Enter the figures as projected after death. Make the projections as of the current year and as of the end of the next two years.
5. In the *Notes* section, explain the basis for the revised figures.
6. When appropriate advisors analyze these figures, they may adjust them.
7. In addition to the projected-after-death figures, record the figures as you did on the income/expenses summary form.
8. Transfer the projected-after-death figures to the estate income/expenses summary form.

Estate Income/Expenses**0903**

Name _____ Soc. sec. no. _____ Page ____ of ____

Category _____

*Estimated at Death (of Husband or Wife)
as of Current Year*

| | <u>12/31/X3</u> | <u>12/31/X4</u> | <u>12/31/X5</u> |
|--------------------|-----------------|-----------------|-----------------|
| Estimated at death | \$ _____ | \$ _____ | \$ _____ |

| | <u>12/31/X1</u> | <u>12/31/X2</u> |
|--------------------------------------------|-----------------|-----------------|
| Per income/expenses summary form (0403) | \$ _____ | \$ _____ |

Notes

**Estate Income/Expenses Summary
Instructions**

Purpose: *To summarize the client's estate information.*

Procedure:

1. Record the income and expenses information from the estate income/expenses forms (0903).
2. Total the amounts and compute the net surplus or deficit.
3. Review the amounts for reasonableness.
4. Transfer the numbers to the overall financial profile summary form (1001).
5. File the forms and supporting documents in the financial planning file.

Estate Income/Expenses Summary

0904

Name _____ Soc. sec. no. _____ Page ____ of ____

| <i>Estimated at Death (of Husband or Wife)</i> | | | |
|------------------------------------------------|-----------------|-----------------|-----------------|
| <i>as of Current Year*</i> | | | |
| | <u>12/31/X3</u> | <u>12/31/X4</u> | <u>12/31/X5</u> |
| Income | | | |
| _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| Subtotal | _____ | _____ | _____ |
| Living expenses | | | |
| _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ |
| Subtotal | _____ | _____ | _____ |
| Excess income (expenses) | <u>\$ _____</u> | <u>\$ _____</u> | <u>\$ _____</u> |

*The estimates do not include adjustments for inflation.

Summary Analysis Form

1001

Overall Financial Profile Summary Instructions

Purpose: *To summarize the client's financial information from all forms.*

Procedure:

1. Record the amounts from other forms in the appropriate spaces on the summary form.
2. Review the amounts for reasonableness.
3. Discuss problem and opportunity areas with the client.
4. File the form in the financial planning file.

Overall Financial Profile Summary**1001**

Name _____ Soc. sec. no. _____ Page _____ of _____

December 3119X119X2

Net worth analysis

Assets

\$ _____ \$ _____

Liabilities

Net worth

\$ _____ \$ _____

Risk analysis

Property and casualty insurance

\$ _____ \$ _____

Automobile insurance

Liability insurance

Health insurance

Life insurance

Disability insurance

Income/expenses analysis

Income

\$ _____ \$ _____

Living expenses

Excess income (expenses)

\$ _____ \$ _____

Income tax analysis

\$ _____ \$ _____

Cash flow analysis

Cash received

\$ _____ \$ _____

Cash expended

Excess income (expenses)

\$ _____ \$ _____

Projected as of
Current Year12/31/X312/31/X4

Retirement analysis

Income

\$ _____ \$ _____

Expenses

Excess income (expenses)

\$ _____ \$ _____

Disability analysis

Income

\$ _____ \$ _____

Expenses

Excess income (expenses)

\$ _____ \$ _____

Estate analysis

Income

\$ _____ \$ _____

Expenses

Excess income (expenses)

\$ _____ \$ _____

Recommendations Form

1101

Summary of Recommendations Instructions

Purpose: *To summarize the recommendations.*

Procedure:

1. Briefly describe each recommendation.
2. Indicate the impact it has on the different areas. Use *P* for positive and *N* for negative.
3. Obtain copies of the documents supporting the recommendations.
4. File the form and the supporting documents in the financial planning file.

Summary of Recommendations

1101

Name _____ Soc. sec. no. _____ Page _____ of _____

| | | Areas Impacted* | | | | | |
|-----------------|-------|-----------------|---------------------|--------------|-----------|------------|-------------------|
| Actions to Take | | Net Worth | Income and Expenses | Income Taxes | Cash Flow | Retirement | Disability Estate |
| 19X3 | | | | | | | |
| 1. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 2. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 3. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 4. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 5. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 6. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 19X4 | | | | | | | |
| 1. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 2. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 3. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 4. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| Post-19X4 | | | | | | | |
| 1. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |
| 2. | _____ | _____ | _____ | _____ | _____ | _____ | _____ |

*Kinds of impacts are P for positive impact and N for negative impact.

PART THREE

A SAMPLE FINAL REPORT TO THE CLIENT

Preliminary Information

The following illustrative report is the output of a personal financial planning engagement conducted by accountant Sam Brown for his clients, John and Mary Smith, who each own and operate a separate business. They seek retirement security. The Smiths have three dependent children: John, Jr., nineteen years old; Susan, seventeen years old; and Jane, twelve years old. (Refer to "Personal Information" on page 103 and the list of personal financial planning team members on page 104 for additional background information.)

Note: This report illustrates only one of several report formats that may be used in a personal financial planning engagement. In preparing a final report for the client, the practitioner selects a format appropriate for the specific engagement. The advice given in the following report illustrates only the matters that may be covered. Every client situation will be different, and the recommendations from advisors may differ, even in identical situations. This illustration was prepared prior to the Tax Reform Act of 1986.

Illustrative Transmittal Letter

Brown & Jones, Inc.
Anytown, USA 10111

June 15, 19X3

Mr. & Mrs. John Smith
One Main St.
Anytown, USA 10111

Dear John and Mary:

We are pleased to provide you with your personal financial plan, which begins with a summary analysis of personal information and the eight aspects of your financial situation. In each case the analysis summarizes the current situation, discusses objectives, and identifies problems and opportunities.

The plan's second section recommends actions to correct problems and to take advantage of opportunities. Each recommendation includes a discussion of the problem or opportunity, a description of the proposed action, and a brief discussion of its impact.

In the third section, the nine supporting analyses provide detailed information about the different aspects of your financial situation. They include financial statements with related notes and a discussion of how the combined actions affect particular areas.

In preparing the plan, we consulted your attorney, banker, insurance agent, real estate broker, stockbroker, and trust officer. Their input has been most valuable in identifying problems and opportunities and recommending appropriate actions.

We have compiled the accompanying statements of your financial condition as of December 31, 19X1 and 19X2, and the related statements of changes in net worth for those years, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting financial statements based on

Note: This illustrative transmittal letter states that the engagement included a compilation of the client's personal financial statements conducted in accordance with Statement on Standards for Accounting and Review Services (SSARS) 1. SSARS 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*, provides that an accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of SSARS 1, as amended, when certain conditions exist. Refer to SSARS 6 for the conditions. However, SSARS 6 does not preclude an accountant from complying with SSARS 1 in such engagements.

information provided by clients. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The accompanying projected statements and summaries of significant assumptions as of December 31, 19X3, 19X4, and 19X5 present, to the best of your knowledge and belief, your expected financial condition and changes in net worth that would result from various transactions during the projection periods, as disclosed in items a through k of the summary of significant assumptions; they are not intended to represent an estimate of future financial results. Accordingly, the financial projections reflect your judgment, based on present circumstances, of the expected conditions and your expected courses of action if the income is achieved. However, even if the income is attained, some assumptions inevitably may not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved during the projection periods may vary from the projections, and the variations may be material.

The projections in this report were prepared for personal financial purposes and should not be relied on for any other purpose. We have compiled the projections in accordance with applicable guidelines established by the American Institute of Certified Public Accountants. A compilation of projections does not include evaluating the support for the assumptions underlying the projections. Therefore, we do not express a conclusion or any other form of assurance on the accompanying statements or assumptions. We have no responsibility to update this report for events and circumstances that occur after the date of this report.

We have enjoyed working with you in preparing this plan and look forward to helping you implement and update it next year.

Sincerely,

Sam Brown
Brown & Jones, Inc.

Summary Analysis

You, the Smith family, are in relatively good financial condition. As reflected in your summary financial profile statement [pages 94 and 95], you have a net worth of over \$270,000 and your income exceeds your

Summary Financial Profile Statement
John and Mary Smith
for December 31, 19X1, 19X2, 19X3, 19X4, and 19X5
as of June 15, 19X3

| | <u>19X1 Actual</u> | <u>19X2 Actual</u> | <u>19X3 Projected</u> | <u>19X4 Projected</u> | <u>19X5 Projected</u> |
|------------------------------|------------------------|------------------------|---------------------------|---------------------------|---------------------------|
| Net worth analysis | | | | | |
| Assets | \$ 416,800 | \$ 444,000 | \$ 498,275 | \$ 577,725 | \$ 849,725 |
| Liabilities | <u>166,800</u> | <u>167,000</u> | <u>182,400</u> | <u>183,600</u> | <u>378,100</u> |
| Net worth | 250,000 | 277,000 | 315,875 | 394,125 | 471,625 |
| Risk analysis | | | | | |
| House and property | 221,000 | 235,000 | 265,000 | 285,000 | 531,900 |
| Liability | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,500,000</u> |
| Income and expenses analysis | | | | | |
| Income | 86,000 | 97,000 | 106,500 | 137,500 | 122,700 |
| Living expenses | <u>85,500</u> | <u>92,050</u> | <u>90,435</u> | <u>92,040</u> | <u>85,500</u> |
| Surplus (deficit) | 500 | 4,950 | 16,065 | 45,460 | 37,200 |
| Income tax analysis | 16,200 | 23,800 | 23,200 | 22,000 | 12,400 |

| | | | | | | |
|--------------------------|------------------------|-----------------|----------------|----------------|----------------|--|
| Cash flow analysis | | | | | | |
| Cash received | 86,000 | 97,000 | 116,500 | 167,500 | 317,700 | |
| Cash expended | <u>90,500</u> | <u>101,500</u> | <u>116,535</u> | <u>123,840</u> | <u>365,500</u> | |
| Surplus (deficit) | (4,500) | (4,550) | (35) | 43,660 | (47,800) | |
| | <i>Projected as of</i> | | | | | |
| | <u>12/31/X1</u> | <u>12/31/X2</u> | | | | |
| Retirement analysis | | | | | | |
| Income | 40,000 | 44,000 | | | | |
| Expenses | <u>45,000</u> | <u>50,000</u> | | | | |
| Excess income (expenses) | (5,000) | (6,000) | | | | |
| Disability analysis | | | | | | |
| Income | 55,000 | 75,500 | | | | |
| Expenses | <u>85,500</u> | <u>85,500</u> | | | | |
| Excess income (expenses) | (30,500) | (10,000) | | | | |
| Estate analysis | | | | | | |
| Income | 65,500 | 80,500 | | | | |
| Expenses | <u>78,500</u> | <u>78,500</u> | | | | |
| Excess income (expenses) | (13,000) | (2,000) | | | | |

living expenses. You do have some serious problems because of John's disability coverage and estate situation, but you can correct these without much difficulty, in particular by making more effective use of the resources you have available. For example, by improving your respective companies' fringe benefits, you will simultaneously correct some problems and reduce your taxable income.

The remainder of this section provides a summary analysis for each aspect of your family's financial situation, including a discussion of the current situation and family objectives and a description of problems and opportunities.

Personal information. The businesses you operate continue to grow. Your three children are attending school and are dependent. Your objectives are to ensure that the family maintains its standard of living in case of John's disability or death, that your children are able to reach their full potential, and that you are able to retire in relative comfort.

Net worth analysis. You have increased your net worth by \$27,000 to \$277,000 during the past year. With \$10,000 in certificates, you have adequate cash reserves, and your liabilities are consistent with your net worth and income level. Before you retire, you wish to increase your net worth to approximately \$750,000 and establish a \$250,000 trust fund for your children. To accomplish this, you need to diversify your mix of assets in order to improve your return on investments.

You do not have any serious problems regarding your net worth, and you do have an opportunity to improve the performance of your assets over the next several years. For example, during the past several years your stocks have not performed as well as the overall market.

Risk analysis. You have a basic insurance package on your homes, personal property, and cars; a \$1 million personal liability umbrella; and a basic health insurance policy. Your objective is to ensure that all your assets are properly covered and that your net worth will not be seriously affected by a fire or other disaster. There are no significant problems, but you need to review the property and casualty insurance periodically to ensure that it keeps pace with inflation.

Income/expenses analysis. While your income for the year will increase by \$9,500 to \$104,500, your expenses will increase by \$1,675 to \$92,125. This represents an improvement over last year and indicates that the family expenses are stabilizing and corporate expenditures are replacing them.

Your objective is to increase income at an annual rate of 10 to 15 percent while limiting the increase in expenses to between 4 and 6 per-

cent. If you are able to achieve this, you will have an additional \$5,000 to \$10,000 to invest this year.

Providing for your children's college educations poses the only potential problem.

Income tax analysis. You would like to reduce your taxes to the lowest possible level without significantly increasing the likelihood of an Internal Revenue Service audit. Because you have taken a conservative approach with your taxes, you should not have any problems with the IRS. With proper tax planning, you may be able to significantly reduce your income taxes.

Cash flow analysis. You would like to maintain your current cash position and in the future invest available cash in higher-yielding assets. You have no serious problems with cash flow, but you can improve your position by reducing living expenses and obtaining better yields on the family's assets.

Retirement analysis. If you are willing to sell your home in Anytown and reduce your standard of living, you can live comfortably on the funds that you have provided for your retirement. However, you would like to have additional retirement income so that you can maintain your home in Anytown and travel. The major opportunity lies in improving the pension plans of your two companies. More efficient investment of the family assets will also result in greater income during retirement.

Disability analysis. You want to maintain the family's current standard of living in the event either of you becomes disabled. Serious problems could arise if John became disabled. If living expenses could not be reduced significantly in the short run, projected expenses would exceed projected income by approximately \$30,000 in the first full year.

This deficiency in disability income is serious and needs to be addressed immediately. Since you both own your companies, you can each solve the problem by establishing a salary-continuation plan.

Estate analysis. Your objective is to improve your estate so that your family could maintain its current standard of living in case of John's death. However, two significant problems exist. First, John does not have enough insurance to provide the assets needed to maintain your family's *current* standard of living. Second, since John's company has no buy-sell agreement, it might not provide the assets anticipated.

Because of John's life insurance, your family could continue to have a reasonable, though reduced, standard of living if John died and Mary continued working. If both of you died, your children would have a difficult time.

Recommendations

Your family is in a good position to correct existing problems in your financial situation and to take advantage of several opportunities. Owning your businesses gives you a significant amount of flexibility in taking advantage of current tax laws. You have also kept expenses in line with income and have no major debts that will tie up funds for an extended period. Assuming that both of you stay in good health and your businesses continue to grow, you should be able to make significant improvements over the next few years.

To successfully implement the recommendations discussed in this section, you need an integrated approach that considers each aspect of your financial situation, as well as a multiyear approach that systematically builds on the preceding actions. The accompanying summary of recommendations lists the recommendations by year of implementation and indicates which areas each will affect. For example, we recommend that you take action to correct the disability problem in 19X3. Such action will affect expenses and cash flow.

The remainder of this section analyzes each recommendation by briefly describing the problem or opportunity, the recommended corrective action, and the areas affected by the action. The supporting analyses explain how the recommendations impact each area.

Recommendations for 19X3

For the remainder of 19X3, you need to focus on solving immediate problems and on laying the groundwork to correct long-term problems and take advantage of several opportunities that will likely be available. Specifically, you need to correct the disability and estate problems immediately and begin to arrange buy-sell agreements for the businesses. You also need to explore ways to improve your stock portfolio and to consider various tax shelters.

Improve Disability Coverage

You need to improve your disability situation immediately. If John became permanently disabled, his current disability benefits would be approximately \$30,000 less than the family's projected expenses. Although the problem would not be as serious if Mary were disabled, the family would still experience a financial strain.

With his after-tax income of approximately \$55,000, John can obtain up to \$41,000 in disability coverage (75 percent of the \$55,000), and Mary can obtain approximately \$12,000. Assuming a ninety-day waiting period and coverage up to the age of sixty-five, disability coverage will

Summary of Recommendations June 15, 19X3

| <u>Actions to Take</u> | <u>Areas Affected*</u> | | | | | | |
|----------------------------------------------|------------------------|------------------------------------|-------------------------|----------------------|-------------------|-------------------|---------------|
| | <u>Net Worth</u> | <u>Income and Expenses</u> | <u>Income Taxes</u> | <u>Cash Flow</u> | <u>Retirement</u> | <u>Disability</u> | <u>Estate</u> |
| 19X3 | | | | | | | |
| 1. Improve disability. | — | N | — | N | — | P | — |
| 2. Increase life insurance. | N | N | — | N | — | — | P |
| 3. Revise wills. | — | — | — | — | — | — | P |
| 4. Establish buy-sell agreements. | — | — | — | — | — | P | P |
| 5. Improve stock portfolio. | P | P | P | P | P | — | — |
| 6. Increase property and casualty insurance. | — | — | — | — | — | — | — |
| 7. Explore tax shelters. | — | — | P | N | P | — | — |
| 19X4 | | | | | | | |
| 1. Improve pension plan. | — | — | — | — | P | P | — |
| 2. Incorporate partnership. | — | — | P | P | — | — | — |
| 3. Improve fringe benefits. | — | P | P | P | — | — | — |
| 4. Establish children's trust fund. | N | N | P | N | — | — | P |
| Post-19X4 | | | | | | | |
| 1. Construct a corporate building. | P | P | P | P | P | — | — |
| 2. Invest in other real estate. | P | P | P | P | P | — | — |

*Kinds of impacts are P for positive impact and N for negative impact.

cost approximately \$2,200 per year. If you extend the waiting period to six months, the cost decreases to about \$750. We recommend that both of you obtain disability coverage immediately. On a longer-term basis, you should explore the possibility of your companies providing this coverage. (See the recommendations on fringe benefits [page 102] for more information on this point.)

In addition to affecting your disability situation, this action will increase living expenses and reduce cash flow. Assuming something can be worked out with the companies, this negative impact will be short-term.

Purchase Additional Life Insurance

If John died, the estate as presently structured would not provide enough income to maintain the family at its current standard of living. If the family could not sell or operate John's business, the situation would become worse.

To solve the immediate problem, we recommend that John obtain additional term insurance of \$150,000 until he can make more permanent arrangements. The additional insurance will cost approximately \$500 per year. This action will also increase living expenses and reduce cash flow.

Revise Wills to Take Advantage of the New Tax Law

Under your current wills, your combined estate taxes will amount to almost \$200,000, with over \$55,000 to be paid on John's death. You need to modify your wills to include the unlimited marital deduction. Using the marital deduction will let you delay paying taxes if John dies first, and it will reduce the taxes if Mary has time to systematically distribute her assets before she dies. John should also consider establishing an estate tax credit trust. These two actions would permit transferring all of John's assets tax free. In addition, John needs to transfer sufficient assets to Mary to ensure full utilization of the unified credit benefit. This transfer credit totals \$49,000 for the current year and will increase over the next four years as the unified credit amount increases.

To decrease or eliminate the taxes on Mary's estate, you can establish an estate tax credit trust from John's estate with Mary as the income beneficiary. You can transfer to the trust the amount that would be offset by the estate tax credit. You need to coordinate such activities with efforts to establish a trust for your children.

Set Up Buy-Sell Agreements for Businesses

You are both involved in closely held companies that will be difficult to sell if either of you dies or becomes disabled. We recommend that John enter into a buy-sell agreement with his employees and Mary enter into an agreement with her partner. John's agreement would be funded with insurance purchased on his life by his employees; Mary and her partner should purchase insurance on each other.

If properly structured, the only financial impact of these actions will be to improve your estate situation. Providing for an orderly transfer of ownership at the time of death reduces controversy about the business's operation as well as related expenses.

Improve Your Stock Portfolio

Several of the stocks you own have not performed well over the past few years. An analysis by Tom Sampson of Sampson and Johnson indicates that some of the stocks need to be sold and the funds invested elsewhere. Implementing this recommendation will positively affect both net worth and cash flow. The sale will generate additional funds for investment in more productive assets, and net worth should increase over time.

Increase Property and Casualty Insurance

The value and the replacement cost of both homes have increased significantly over the past few years, but your property and casualty insurance has not kept pace. You need to increase the insurance on your homes by approximately \$50,000, which will cost approximately \$100 per year. This recommendation will not significantly affect any other areas.

Explore Possible Tax Shelters and Tax-advantaged Investments

You can begin exploring various methods for sheltering your income. The following sections discuss some long-term approaches. In the short term, you can start an IRA account by putting aside \$4,000 (\$2,000 for each of you), and you can consider investing \$5,000 to \$10,000 in tax shelters that will immediately provide at least a one-to-one write-off and that have the potential for enhancing your net worth in the long run. As an alternative, you can invest in municipal bonds or electric utility reinvestment programs.

Since you are in a 36-percent bracket, the net cost of a \$5,000 investment will be only \$3,200. If you use funds currently invested in other assets, the transaction will not adversely affect cash flow. Likewise, the IRA contribution will have only a small impact on cash flow if you use funds that you normally use for investments and savings. Because IRA contributions are deductible and the income generated will not be taxable, this will reduce your income taxes.

Recommendations for 19X4

In 19X4 we suggest that you begin developing long-term solutions to your problems and take advantage of some available opportunities, including improving John's pension plan, incorporating Mary's company, improving your companies' fringe benefits, making sound investments in real estate, and establishing a trust for your children.

Improve Corporate Pension Plans

Although you feel you can live on the funds you have currently provided for retirement, you prefer to increase your retirement income. You would particularly like to generate enough income to be able to maintain your home in Anytown as well as your vacation home.

You need to review your companies' pension plans to determine if there are ways to provide additional retirement income. Improving the corporate pension plans will not directly affect your family's personal financial situation.

Incorporate Good-Food Catering Service

Mary is currently involved in a partnership business. Although this arrangement was adequate when the business was small, it now means Mary cannot take full advantage of possible fringe benefits. We recommend that Mary and her partner explore the possibility of incorporating their business and operating it as a subchapter S corporation. Incorporating would permit the corporation to pay some of Mary's current expenses with pretax dollars, as discussed in the next recommendation.

Improve Fringe Benefits Obtained From Businesses

You are not taking full advantage of the fringe benefits that are available through your respective companies. The after-tax savings can be significant. For example, your business transportation expenses for 19X1 were over \$4,000. We recommend that both your companies provide you with cars. Assuming the cars can be leased at \$4,000, you will have to recognize a portion as income and can reduce your transportation expense by the full amount. The net saving would be approximately \$3,600. These actions will improve cash flow and reduce income taxes.

Establish a Trust Fund for the Children

One of your objectives is to provide a trust fund of approximately \$250,000 for your children, but you do not currently have a mechanism for creating the trust. We recommend that you meet with your lawyer and establish a trust fund for your three children by initially transferring \$9,000 in cash to the trust and then investing approximately \$9,000 in cash each year. You may manage the trust yourself or seek professional assistance.

The transfer of funds will reduce your (John and Mary's) net worth but will increase your family's net worth. The income from the funds will be taxed at a lower rate in the trust and does not have to be distributed to each child until he or she reaches the age of twenty-one. There is also a possibility that only a portion of the funds will have to be distributed then.

Recommendations for Post-19X4

If you follow the recommendations in the preceding sections and your businesses continue to grow, you will have the funds to make significant improvements in future years. You can explore purchasing a building and leasing it to John's company. As net income continues to increase, you can consider other types of tax shelters as well. You could use the cash generated by these shelters to invest in other items that will generate income during your retirement years.

Corporate Building

John's company currently leases space in a large office building at an annual cost of \$40,000. By leasing you do not obtain any of the tax benefits associated with owning a building.

With a small investment, you could buy land and construct a building for a total cost of \$250,000. You could take the \$40,000 you currently spend on the lease and pay off the loan, and you would then have a tax write-off of approximately \$50,000 to \$60,000 in depreciation and interest payments for the first several years. You can therefore anticipate a positive impact on cash flow.

Under current law, accelerated depreciation on the building could shelter other income. Before deciding to use accelerated depreciation, you need to review possible tax effects if you sell the building outright or as part of a buy-sell agreement.

Other Real Estate Investments

If you continue to be successful in your businesses, you will need additional tax shelters in the years ahead. In their early years, real estate investments usually provide positive cash flow because the income tax savings from depreciation are greater than the mortgage amortization. Historically, real estate investments have performed well against inflation.

Supporting Analyses

Personal Information

You, John and Mary Smith, have three children—John Jr., Susan, and Jane. Detailed information on each family member is provided in the paragraphs that follow.

John, Sr. (42 years old, soc. sec. no. 253-68-7056). John is currently president of the Public Retail Company, Inc., of Anytown. He actively participates in community affairs and is a leader in his church. John intends to work with his company another thirteen years, until he is fifty-five years old. At that time he wants to turn the company over to John, Jr., or sell it to a larger corporation. He then wants to devote more time to community and religious activities and explore the possibility of teaching at the college level.

Mary (42 years old, soc. sec. no. 261-57-4061). Mary is co-owner of the Good-Food Catering Service, which she and her partner started in 1979. Mary plans to continue her work for the immediate future. She currently devotes about half of her time to work and the other half to community and religious activities.

John, Jr. (19 years old, soc. sec. no. 282-47-6060). John, Jr., is a sophomore in college. During the summer he works at his father's company and earns approximately \$4,000. He currently plans to attend law school after graduation, but he is also considering going to work for his father's company.

Susan (17 years old, soc. sec. no. 286-43-5051). Susan is a junior in high school. Although she has recovered from the major injuries associated with her accident, she still attends physical therapy sessions once a week. Susan plans to attend college.

Jane (12 years old, soc. sec. no. 289-62-0476). Jane is in the sixth grade and is in good health.

The following are the names, telephone numbers, and addresses of the various professional advisors involved in the management of your finances.

Accountant

Sam Brown
Brown & Jones, Inc.
Anytown, USA

Attorney

Steve Bennett
Bennett and Cooper
Anytown, USA

Banker

Carl Andrews
National Bank of Midtown
Midtown, USA

Executor

Sam Smith
Public and Smith
Center City, USA

Life Insurance Agent

Bill White
United Policies
Anytown, USA

Property and Casualty Insurance Agent

Bob Wilson
Rivers Insurance Company
Fairview, USA

Stockbroker

Tom Sampson
Sampson and Johnson
Anytown, USA

Trust Officer

Randy Hector
National Bank of Midtown
Midtown, USA

Net Worth Analysis

Your net worth, as reflected in the statement of financial conditions, is projected to increase by almost \$39,000 during 19X3, from \$277,000 to \$315,875. The notes included with the statements explain the significant changes and the basis for valuing the various items.

You have two basic objectives regarding your net worth. First, you would like to increase your personal net worth to \$750,000 before you retire. You feel that if you achieve this, you will be able to live a comfortable life in retirement and will not be a financial drain on any of your children. Second, you want to establish a \$250,000 trust fund for your children. The purpose of the trust is to provide the children with some financial flexibility while they are developing their careers, particularly for Susan with her handicap.

Several of the recommended actions will affect your family's net worth. By purchasing additional life insurance for John, you are protecting your family in case he does not live long enough to build the net worth that you feel your family needs. Your cash flow situation prevents you from fully funding your objectives immediately, but with the \$400,000 of life insurance you have, the additional \$150,000 will bring you closer to your objectives.

Although stocks and bonds represent a relatively small part of your family's net worth at this time, they will eventually be a significant component. Selling the stocks that are not currently performing well can be the first step in taking a more aggressive approach in managing this area.

Establishing a trust fund for your children will create a transfer of assets within the family. It will also reduce your tax liabilities.

Investing in a corporate building and other real estate ventures will likely increase the value of your money at a rate as fast, if not faster than, inflation. In addition, the income from these investment shelters can be used to further increase net worth.

In summary, the recommended actions will help your family structure its assets in a manner consistent with your objectives and will help you achieve your objectives sooner.

John and Mary Smith
Statement of Financial Condition
December 31, 19X1 and 19X2

Projected Statement of Financial Condition
December 31, 19X3, 19X4, and 19X5

| | December 31, | | | |
|------------------------------------|-----------------------|-----------------------|--------------------------|--------------------------|
| | 19X1 <u>Actual</u> | 19X2 <u>Actual</u> | 19X3 <u>Projected</u> | 19X4 <u>Projected</u> |
| Assets | | | | 19X5 <u>Projected</u> |
| Cash | \$ 8,550 | \$ 9,000 | \$ 3,965 | \$ 4,825 |
| Certificates of deposit | 15,000 | 10,000 | 15,000 | 10,000 |
| Investments | | | | |
| Marketable securities | 11,000 | 11,000 | 11,000 | 15,000 |
| Discovery Oil, Ltd. | — | — | — | 10,000 |
| Public Cattle Farm | 30,000 | 30,000 | 30,000 | — |
| Public Retail Company, Inc. | 54,000 | 60,000 | 66,000 | 80,000 |
| Good-Food Catering Service | 20,000 | 24,000 | 30,000 | 47,000 |
| Vested interest in Public Retail | | | | |
| Company, Inc., profit-sharing plan | 6,250 | 9,750 | 17,750 | 40,000 |
| Individual retirement accounts | — | 4,000 | 8,000 | 18,500 |
| Cash value life insurance | 1,000 | 1,250 | 1,560 | 2,500 |

| | | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Commercial rental property | — | — | — | — | 265,000 |
| Anytown residence | 151,000 | 160,000 | 179,600 | 190,000 | 201,500 |
| Vacation home | 85,000 | 90,000 | 95,400 | 101,000 | 107,000 |
| Personal property | 35,000 | 35,000 | 40,000 | 44,000 | 48,400 |
| | <u>\$416,800</u> | <u>\$444,000</u> | <u>\$498,275</u> | <u>\$577,725</u> | <u>\$849,725</u> |
| Liabilities | | | | | |
| Income taxes | \$ 500 | \$ 1,000 | \$ 2,500 | \$ 6,000 | \$ 1,000 |
| Note payable—bank | 4,000 | 3,000 | 2,000 | 1,000 | — |
| Mortgage payable—Anytown residence | 82,500 | 79,200 | 85,500 | 80,900 | 75,900 |
| Mortgage payable—vacation home | 62,500 | 61,000 | 59,900 | 58,200 | 56,500 |
| Mortgage payable—commercial rental property | — | — | — | — | 192,700 |
| Accounts payable | <u>2,000</u> | <u>1,800</u> | <u>3,000</u> | <u>3,000</u> | <u>3,000</u> |
| | <u>151,500</u> | <u>146,000</u> | <u>152,900</u> | <u>149,100</u> | <u>329,100</u> |
| Estimated income taxes on the difference between the estimated current value of assets and the estimated current amounts of liabilities and their tax bases | 15,300 | 21,000 | 29,500 | 34,500 | 49,000 |
| Net worth | <u>\$250,000</u> | <u>\$277,000</u> | <u>\$315,875</u> | <u>\$394,125</u> | <u>\$471,625</u> |
| | <u>\$416,800</u> | <u>\$444,000</u> | <u>\$498,275</u> | <u>\$577,725</u> | <u>\$849,725</u> |

The accompanying notes are an integral part of the financial statements.

John and Mary Smith
Statement of Changes in Net Worth
December 31, 19X1 and 19X2

Projected Statement of Changes in Net Worth
December 31, 19X3, 19X4, and 19X5

| | December 31, | | | |
|------------------------------------|---------------|---------------|------------------|------------------|
| | 19X1 | 19X2 | 19X3 | 19X5 |
| | <u>Actual</u> | <u>Actual</u> | <u>Projected</u> | <u>Projected</u> |
| Realized increases in net worth | | | | |
| Salary—Public Retail Co. | \$ 65,000 | \$ 72,000 | \$ 77,000 | \$ 89,000 |
| Salary—Good-Food Catering Service | 18,000 | 20,000 | 22,500 | 30,000 |
| Interest income | 1,500 | 1,000 | 1,500 | 1,000 |
| Dividend income | 500 | 500 | 1,000 | 1,500 |
| Rental income, net | — | — | — | 1,200 |
| Gain on sale of Public Cattle Farm | — | — | — | — |
| | <u>86,000</u> | <u>97,000</u> | <u>106,500</u> | <u>122,700</u> |
| Realized decreases in net worth | | | | |
| Income taxes | \$ 16,200 | \$ 18,800 | \$ 23,200 | \$ 12,400 |
| Food and clothing | 11,000 | 13,000 | 14,300 | 16,000 |
| Medical expenses | 4,400 | 4,000 | 3,000 | 3,400 |
| Interest expenses | 18,000 | 17,500 | 17,800 | 16,500 |
| | | | | |

| | | | | | |
|----------------------------------------------------|--------|--------|--------|---------|--------|
| Charity | 3,000 | 5,000 | 5,200 | 5,500 | 5,800 |
| Insurance | 3,000 | 3,250 | 3,910 | 4,240 | 4,500 |
| Transportation | 6,300 | 7,000 | 2,400 | 2,500 | 2,600 |
| Education | 6,000 | 6,500 | 8,000 | 8,800 | 9,700 |
| Other | 15,800 | 10,000 | 10,425 | 11,000 | 12,000 |
| Property taxes | 1,800 | 2,000 | 2,200 | 2,400 | 2,600 |
| Trust for children | — | — | 9,000 | 10,000 | 11,000 |
| Total | 85,500 | 92,050 | 99,435 | 102,040 | 96,500 |
| Net realized increase in net worth | 500 | 4,950 | 7,065 | 35,460 | 26,200 |
| Unrealized increases in net worth | | | | | |
| Unrealized appreciation of assets | | | | | |
| Public Retail Company, Inc. | 5,000 | 6,000 | 6,000 | 6,600 | 7,400 |
| Good-Food Catering Service | 3,000 | 4,000 | 6,000 | 7,500 | 9,500 |
| Profit-sharing plan and IRAs | | 3,500 | 8,000 | 13,250 | 11,500 |
| Anytown residence | 8,000 | 9,000 | 9,600 | 10,400 | 11,500 |
| Vacation | 4,000 | 5,000 | 5,400 | 5,600 | 6,000 |
| Commercial rental property | — | — | — | — | 15,000 |
| Other property | — | — | 5,000 | 4,000 | 4,400 |
| Increase in cash surrender value of life insurance | 200 | 250 | 310 | 440 | 500 |
| Unrealized increase in net worth forward | 20,200 | 27,750 | 40,310 | 47,790 | 65,800 |

John and Mary Smith
Statement of Changes in Net Worth
December 31, 19X1 and 19X2 (cont.)

Projected Statement of Changes in Net Worth
December 31, 19X3, 19X4, and 19X5

| | December 31, | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|------------------|------------------|
| | 19X1 | 19X2 | 19X3 | 19X5 |
| | <u>Actual</u> | <u>Actual</u> | <u>Projected</u> | <u>Projected</u> |
| Unrealized decreases in net worth | | | | |
| Estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases | 5,000 | 5,700 | 8,500 | 14,500 |
| Net unrealized increase in net worth | 15,200 | 22,050 | 31,810 | 51,300 |
| Net increase in net worth | 15,700 | 27,000 | 38,875 | 77,500 |
| Net worth at beginning of year | 234,300 | 250,000 | 277,000 | 394,125 |
| Net worth at end of year | \$250,000 | \$277,000 | \$315,875 | \$471,625 |

John and Mary Smith
Notes to Financial Statements

The accompanying financial statements include your assets and liabilities. Unless otherwise indicated, we have stated assets at their estimated current values as determined by you, John and Mary Smith, and liabilities at their estimated current amounts.

1. *Marketable securities.* The estimated current values of marketable securities are stated at their quoted closing prices. Marketable securities consist of the following:

| | <i>December 31,</i> | | | |
|----------------------|----------------------|-----------------------|----------------------|-----------------------|
| | <i>19X1</i> | | <i>19X2</i> | |
| | <i>Number of</i> | <i>Estimated</i> | <i>Number of</i> | <i>Estimated</i> |
| <u><i>Stocks</i></u> | <u><i>Shares</i></u> | <u><i>Current</i></u> | <u><i>Shares</i></u> | <u><i>Current</i></u> |
| | | <i>Values</i> | | <i>Values</i> |
| Slow Growth, Inc. | 300 | \$ 3,000 | 300 | \$ 3,100 |
| United Citibanc | 300 | 4,800 | 300 | 6,000 |
| Fastrack Corp. | 1,000 | 2,200 | 1,000 | 900 |
| Telscan, Inc. | 100 | 1,000 | 100 | 1,000 |
| | | <u>\$ 11,000</u> | | <u>\$ 11,000</u> |

2. *Public Cattle Farm.* The estimated current value of Public Cattle Farm, which John inherited from his father, is based on the value assigned to it for estate tax purposes. There is currently no net income realized from this investment.

3. *Public Retail Company, Inc.* John owns all the outstanding stock of Public Retail Company, Inc. We have estimated the current value of the company based on book value. The condensed balance sheets of Public Retail Company, Inc., prepared in conformity with generally accepted accounting principles, are summarized as follows:

| | <i>December 31,</i> | |
|------------------------------------|---------------------|--------------------|
| | <u><i>19X1</i></u> | <u><i>19X2</i></u> |
| Assets | | |
| Current assets | \$350,000 | \$400,000 |
| Plant, property, and equipment—net | 175,000 | 150,000 |
| Other assets | 25,000 | 50,000 |
| | <u>\$550,000</u> | <u>\$600,000</u> |

| | | |
|------------------------|------------------|------------------|
| Liabilities and equity | | |
| Current liabilities | \$330,000 | \$320,000 |
| Long-term liabilities | 166,000 | 220,000 |
| Equity | <u>54,000</u> | <u>60,000</u> |
| | <u>\$550,000</u> | <u>\$600,000</u> |

The sales for 19X1 were \$1,000,000 and net income was \$14,000. For 19X2 sales were \$900,000 and net income was \$6,000.

4. *Good-Food Catering Service.* We have estimated the current value of Good-Food Catering Service based on book value of the partnership, and Mary owns 50 percent of the partnership. The condensed balance sheets of Good-Food Catering Service, prepared in conformity with generally accepted accounting principles, are summarized as follows:

| | <u>December 31,</u> | |
|------------------------------------|---------------------|------------------|
| | <u>19X1</u> | <u>19X2</u> |
| Assets | | |
| Current assets | \$ 50,000 | \$ 60,000 |
| Plant, property, and equipment—net | 60,000 | 80,000 |
| Other assets | <u>5,000</u> | <u>5,000</u> |
| | <u>\$115,000</u> | <u>\$145,000</u> |
| Liabilities and equity | | |
| Current liabilities | \$ 40,000 | \$ 45,000 |
| Long-term liabilities | 35,000 | 52,000 |
| Equity | <u>40,000</u> | <u>48,000</u> |
| | <u>\$115,000</u> | <u>\$145,000</u> |

After the partners' guaranteed salaries, sales for 19X1 were \$350,000 and net income was \$6,000. For 19X2 sales were \$450,000 and net income was \$8,000.

5. *Life insurance*

| | <u>John Smith</u> | <u>Mary Smith</u> |
|---------------|-------------------|-------------------|
| Ordinary life | \$200,000 | \$ 75,000 |
| Term life | <u>200,000</u> | <u>25,000</u> |
| | <u>\$400,000</u> | <u>\$100,000</u> |

6. *Residence and vacation home.* We have estimated the current values of the Anytown residence and the vacation home based on comparable values ascertained by John.

7. *Personal property.* Personal property consists of furnishings, art, jewelry, and automobiles. We have estimated the current values based on cost of furnishings, independent appraisals for art and jewelry, and wholesale book value for automobiles.

8. *Mortgages and notes payable*

| | <i>December 31,</i> | | | | |
|-------------------------------------------------------|---------------------|---------------|---------------|---------------|------------------|
| | <u>19X1</u> | <u>19X2</u> | <u>19X3</u> | <u>19X4</u> | <u>19X5</u> |
| Note payable bank, unsecured | \$ 4,000 | \$ 3,000 | \$ 2,000 | \$ 1,000 | \$ — |
| 12% mortgage payable, secured by residence* | 82,500 | 79,200 | 85,500 | 80,900 | 75,900 |
| 12% mortgage payable, secured by vacation home† | <u>62,500</u> | <u>61,000</u> | <u>59,900</u> | <u>58,200</u> | <u>56,500</u> |
| 12% mortgage payable, secured by commercial property‡ | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>\$192,700</u> |
| | \$149,000 | \$143,200 | \$147,400 | \$140,100 | \$325,100 |

9. *Estimated income taxes.* The estimated current amounts of liabilities on December 31, 19X1, and December 31, 19X2, equaled their tax bases. By using applicable tax laws and regulations, we have estimated income taxes on the excess of the estimated current values of assets over their tax bases as if the estimated current values of the assets had been realized on the statement date.

This estimate will probably differ from the amounts of income taxes eventually paid, because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at that time.

*Monthly payments are \$1,081, including interest in 19X1 and 19X2, and \$1,201 in 19X3 thereafter.

†Monthly payments are \$716, including interest.

‡Monthly payments are \$2,148, including interest.

| | December 31, | | | | |
|------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|
| | <u>19X1</u> | <u>19X2</u> | <u>19X3</u> | <u>19X4</u> | <u>19X5</u> |
| Investments | \$ 35,000 | \$ 45,000 | \$ 57,000 | \$ 76,100 | \$103,000 |
| Vested interest in profit-sharing plan and IRA accounts | 6,250 | 13,750 | 25,750 | 43,000 | 58,500 |
| Residence and vacation home | 56,000 | 70,000 | 85,000 | 101,000 | 118,500 |
| Other assets | 15,000 | 15,000 | 20,000 | 24,000 | 43,400 |
| | <u>\$112,250</u> | <u>\$143,750</u> | <u>\$187,750</u> | <u>\$244,100</u> | <u>\$323,400</u> |

10. *Summary of significant projection assumptions.* These projected financial statements of condition and changes in net worth assume that you, John and Mary Smith, will change your securities, sell Public Cattle Farm, purchase a tax-sheltered investment, construct a commercial rental building, incorporate Good-Food Catering Service, improve your retirement programs, and set up a trust fund for your children. These assumptions also include a general increase in your income stream and either a moderate increase or stabilization of your living expenses. These projections reflect your judgment, based on present circumstances, of expected conditions and your expected courses of action. The presentation is designed to provide information for personal financial planning and cannot be considered a presentation of expected future results. Accordingly, these projections may not be useful for any other purposes. The assumptions disclosed herein are those that you believe are significant to the projections; however, you have not decided that all the courses of action described herein will be taken. Even if you do take all the courses of action, some assumptions inevitably may not materialize and unanticipated events and circumstances may occur subsequent to June 15, 19X3, the date of these projections. Therefore, the actual results achieved during the projection periods may vary from the projections, and the variations may be material.

a. *Securities.* During the next twelve months, you will modify or increase securities you own to approximately \$15,000, and they will yield approximately 10 percent.

b. *Public Cattle Farm.* Although this farm has been in the family for years, you feel that it is not productive and should be sold. Based on comparable properties, you expect to realize net sales price of \$55,000 during 19X4.

c. *Discovery Oil, Ltd.* To offset increasing income taxes on growing income, you expect to invest approximately \$10,000 in a quality tax-

sheltered investment. Funds for this investment could come from additional revenue, sale of the cattle farm, or both.

d. *Commercial rental property.* To further expand your investment base and provide additional tax-sheltered investments and income, you expect to construct facilities for the use of Public Retail Company, Inc. You expect funds required for this projected construction to come from the sale of the cattle farm. You estimate the project will cost \$250,000 and require a \$195,000 mortgage. You expect this building to be ready for occupancy by January 19X5. By the end of 19X5 you estimate the building's value will be \$265,000.

e. *Good-Food Catering Service.* This investment has grown steadily and provides Mary with a good income. To improve fringe benefits and minimize taxes on this source of income, you expect that Mary and her partner will incorporate this business and eventually develop a retirement program and automobile benefits.

f. *Retirement programs.* Public Retail Company has been contributing a minimal amount to its profit-sharing plan for John's benefit. You expect that this contribution will be at least 10 percent of his salary in 19X3 and future years. You plan to continue contributions to individual retirement accounts.

g. *Children's trust fund.* You expect to create a trust for the benefit of your three children. You are considering a goal of \$250,000 with annual contributions of approximately \$10,000. This transfer of assets will also serve to reduce your income and estate taxes.

h. *Realized increases in net worth.* Increases in income from salaries and investments are expected to continue at the same rate as experienced in 19X1 and 19X2, except for an anticipated gain on the sale of the cattle farm and net rental income expected to start in 19X5.

i. *Realized decreases in net worth.* You expect some expenses to increase moderately and others to decrease. We have calculated your income taxes using current income tax rates applied to projected taxable income. You expect food and clothing, medicine, charity, insurance, and other expenses to increase approximately 5 to 7 percent, and trust contributions, educational expenses, and property taxes to increase approximately 10 percent. You anticipate that transportation expenses will be reduced on the assumption that your businesses will absorb a substantial portion of such business-related costs.

j. *Unrealized increases in net worth.* We expect appreciation in estimated current values to follow the 19X1 and 19X2 rates wherever applicable. We will state your business interests at book value (for simplicity of presentation) and your retirement programs at the estimated vested interests anticipated.

k. *Unrealized decreases in net worth.* We have calculated your estimated income taxes on the same basis as 19X1 and 19X2.

Risk Analysis

You have a \$1 million personal liability umbrella policy as well as a property and casualty policy that covers your homes and personal property. You carry comprehensive and collision insurance less appropriate deductible amounts for all three of your cars. The limits on liability and uninsured motorists are outlined in the statement [page 117]. John's corporation provides a basic health insurance policy. You need to increase benefits during the projection period to reflect increased costs.

Your objective is to ensure, at a reasonable cost, that an accident or a liability suit will not reduce your net worth. The recommended action to increase the property and casualty insurance on your home will provide adequate coverage. The values reflected exclude the land portion of the total value. When you acquire the projected commercial real estate in 19X5, you need to obtain additional coverage for the value of the property less land. In addition, you need to increase the personal liability umbrella policy to \$1.5 million because of the increased exposure related to the property.

John and Mary Smith
Risk Analysis
for December 31, 19X1, 19X2, 19X3, 19X4, and 19X5
as of June 15, 19X3

| | 19X1 Actual | 19X2 Actual | 19X3 Projected | 19X4 Projected | 19X5 Projected |
|---------------------------------------------------|----------------|----------------|-------------------|-------------------|-------------------|
| Property and casualty insurance ¹ | | | | | |
| Anytown residence | \$ 121,000 | \$ 130,000 | \$ 149,600 | \$ 160,000 | \$ 171,500 |
| Residence — vacation home | 65,000 | 70,000 | 75,400 | 81,000 | 87,000 |
| Personal property | 35,000 | 35,000 | 40,000 | 44,000 | 48,400 |
| Commercial rental property | — | — | — | — | 225,000 |
| | <u>221,000</u> | <u>235,000</u> | <u>265,000</u> | <u>285,000</u> | <u>531,900</u> |
| | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,500,000 |
| Liability insurance ² | | | | | |
| Car insurance (on each of the three) ³ | | | | | |
| Comprehensive (CV) | | | | | |
| Collision (CV) | | | | | |
| Property damage liability (PO) | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Bodily injury liability (PP) | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| (PO) | 300,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Uninsured motorist | | | | | |
| Bodily injury (PP) | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| (PO) | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Property damage (PO) | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Health insurance ⁴ | | | | | |
| \$300 deductible | 90 | 90 | 100 | 100 | 120 |
| per day room and board | | | | | |
| Maternity benefit | 1,000 | 1,000 | 1,250 | 1,250 | 1,500 |

CV = cash value; PO = per occurrence; PP = per person.

Notes to Risk Analysis Statement

1. *Property and casualty insurance.* ABC Fire Insurance Company insures both homes. The 19X2 annual premium is \$734; the policy number is 123455.
2. *Liability insurance.* ABC Fire Insurance Company issued the policy. The 19X2 annual premium is \$145; the policy number is 3344334.
3. *Car insurance.* RST Insurance Corporation issued the policy. The 19X2 annual premium is \$531; the policy number is 128989.
4. *Health insurance.* John's business provides the family's health insurance.

Income/Expenses Analysis

Both companies continue to perform well and it appears that income will increase again this year. As figures in the income/expenses statement [page 119] show, we project that your family's income will increase annually, with some offsets resulting from increased living expenses. As a result, your family will have an annual surplus.

For the next several years, you would like to maintain your living expenses at approximately the same level while increasing your income. This will permit you to increase your net worth at a faster rate.

Improving the disability coverage and increasing John's life insurance will have the most significant impact on expenses, increasing the total by \$1,000 per year. Assuming that some of these expenses can be shifted to the companies, these increases will be short-term.

By having your companies provide you with more fringe benefits, you will reduce your personal expenses. For example, shifting ownership of the cars will result in a reduction of approximately \$3,600. You can also shift a portion of the disability and life insurance to the companies.

Income generated by the corporate building and other real estate investments will offset direct expenses, and you can use the expenses to reduce your income taxes.

In summary, the recommendations will result in some short-term increases in expenses, but the potential for reducing long-term living expenses is quite good.

John and Mary Smith
Income/Expenses Statement
for the Years Ended December 31, 19X1 and 19X2
and for the Years Ending December 31, 19X3, 19X4, and 19X5
as of June 15, 19X3

| | <u>19X1</u> <u>Actual</u> | <u>19X2</u> <u>Actual</u> | <u>19X3</u> <u>Projected</u> | <u>19X4</u> <u>Projected</u> | <u>19X5</u> <u>Projected</u> |
|----------------------------------------|------------------------------|------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Income | | | | | |
| Salary—Public Retail Co. ¹ | \$65,000 | \$72,000 | \$ 77,000 | \$ 82,500 | \$ 89,000 |
| Salary—Good-Food Catering ¹ | 18,000 | 20,000 | 22,500 | 26,000 | 30,000 |
| Interest | 1,500 | 1,000 | 1,500 | 2,500 | 1,000 |
| Dividends | 500 | 500 | 1,000 | 1,500 | 1,500 |
| Distribution from partnerships | 1,000 | 3,500 | 4,500 | — | — |
| Rental income—net | — | — | — | — | 1,200 |
| Total | <u>86,000</u> | <u>97,000</u> | <u>106,500</u> | <u>112,500</u> | <u>122,700</u> |
| Living expenses ² | | | | | |
| Income taxes | 16,200 | 23,800 | 23,200 | 22,000 | 12,400 |
| Food and clothing | 11,000 | 13,000 | 14,300 | 15,200 | 16,000 |
| Medical expenses | 4,400 | 4,000 | 3,000 | 3,200 | 3,400 |
| Interest expenses | 18,000 | 17,500 | 17,800 | 17,200 | 16,500 |
| Charity | 3,000 | 5,000 | 5,200 | 5,500 | 5,800 |
| Insurance | 3,000 | 3,250 | 3,910 | 4,240 | 4,500 |
| Transportation | 6,300 | 7,000 | 2,400 | 2,500 | 2,600 |
| Education | 6,000 | 6,500 | 8,000 | 8,800 | 9,700 |
| Other ³ | 15,800 | 10,000 | 10,425 | 11,000 | 12,000 |
| Property taxes | 1,800 | 2,000 | 2,200 | 2,400 | 2,600 |
| Total | <u>85,500</u> | <u>92,050</u> | <u>90,435</u> | <u>92,040</u> | <u>85,500</u> |
| Surplus | \$ 500 | \$ 4,950 | \$ 16,065 | \$ 20,460 | \$ 37,200 |

Notes to the Income/Expenses Statement

1. *Salaries.* John has a base salary of \$50,000 per year. In addition, his company pays him a bonus based on its net income for the year. For the past two years, the bonus has been \$15,000 and \$22,000, respectively.

The partnership pays Mary a base salary. She and her partner divide the remaining profit.

2. *Living expenses.* We have estimated the living expenses based on a review and analysis of your cancelled checks.

3. *Other.* Beginning in 19X3, the *other* category decreased because you specifically identified more expenses.

Income Tax Analysis

Your objective is to reduce taxes by using techniques that do not involve excessive risk. By implementing the recommendations, you can reduce your income taxes without significantly increasing the risk in the other areas. If you carefully select a tax shelter in 19X3, you may be able to reduce your taxes by several thousand dollars. In addition, establishing an IRA account will reduce taxes and the income will not be taxed until it is withdrawn.

By incorporating Mary's partnership, you will have greater flexibility in using pretax dollars for various expenses. You can shift expenses to your respective companies.

Investing in the corporate building and in other types of real estate can significantly reduce taxes in the early years. If John retires at age fifty-five, your tax rate will be lower when the income from these properties begins to exceed the expenses.

In summary, your business interests and good financial condition put you in an excellent position to take advantage of a variety of opportunities to reduce your taxes.

John and Mary Smith
Income Tax Statement
for the Years Ended December 19X1 and 19X2
and for the Years Ending December 31, 19X3, 19X4, and 19X5
as of June 15, 19X3

| | <u>19X1 Actual</u> | <u>19X2 Actual</u> | <u>19X3 Projected</u> | <u>19X4 Projected</u> | <u>19X5 Projected</u> |
|-----------------------------------------------------------------|------------------------|------------------------|---------------------------|---------------------------|---------------------------|
| Gross income | | | | | |
| Salary | \$83,000 | \$92,000 | \$ 99,500 | \$108,500 | \$119,000 |
| Interest and dividends | 1,800 | 1,300 | 1,300 | 3,800 | 2,300 |
| Partnership income | 3,000 | 4,000 | 4,500 | — | — |
| Rental income—net ¹ | — | — | — | — | 11,300 |
| Gain on sale of farm at 40% | — | — | — | 10,000 | — |
| Loss from Discovery Oil investment | — | — | — | (5,000) | (10,000) |
| Total | <u>87,800</u> | <u>97,300</u> | <u>105,300</u> | <u>117,300</u> | <u>100,000</u> |
| Adjustments to income | | | | | |
| Automobile expense ² | 8,000 | 11,000 | 7,000 | — | — |
| IRA contributions | — | 4,000 | 4,000 | 4,000 | 4,000 |
| Total | <u>8,000</u> | <u>15,000</u> | <u>11,000</u> | <u>4,000</u> | <u>4,000</u> |
| Adjusted gross income | <u>79,800</u> | <u>82,300</u> | <u>94,300</u> | <u>113,300</u> | <u>96,000</u> |
| Itemized deductions allowed | <u>22,700</u> | <u>25,000</u> | <u>26,600</u> | <u>27,500</u> | <u>26,460</u> |
| Total | <u>57,100</u> | <u>57,300</u> | <u>67,700</u> | <u>85,800</u> | <u>69,540</u> |
| Personal exemptions | <u>5,000</u> | <u>5,000</u> | <u>5,000</u> | <u>5,000</u> | <u>5,200</u> |
| Taxable income | <u>\$52,100</u> | <u>\$52,300</u> | <u>\$ 62,700</u> | <u>\$ 80,800</u> | <u>\$ 64,340</u> |
| Taxes due—federal and state, net of any credits ³ | <u>\$16,200</u> | <u>\$23,800</u> | <u>\$ 23,200</u> | <u>\$ 22,000</u> | <u>\$ 12,400</u> |

Notes to the Income Tax Statement

1. *Depreciation.* For the rental income, a net of \$1,200 was reduced by depreciation of \$12,500.
2. *Business expenses.* Both of you are currently using your personal cars for business and are doing a significant amount of entertaining in your home.
3. *Credits.* The credits are for political contributions.

Cash Flow Analysis

As figures in the cash flow statement [page 123] show, you can expect your situation to improve since you need not sell stock to maintain a positive balance. The home improvement loan will affect subsequent years' cash flow.

You stated your wish to minimize borrowing to meet cash flow needs. You would like to improve your cash flow to permit greater flexibility in making investments. No single recommendation will have a major affect on cash flow, but collectively the recommendations can yield improvement in the next several years.

Providing additional disability and insurance coverage will increase living expenses. Improving the stock portfolio should increase income, and using tax shelters will reduce expenses.

Incorporating Mary's partnership and establishing more advantageous corporate fringe benefits for both of you will improve cash flow, because you will use pretax dollars to cover these expenses. Establishing a trust for the children will have a negative impact on cash flow. However, if you use the income to offset expenses such as education, the overall impact will be positive because the income will be taxed at lower rates. Cash flow will improve by the degree to which interest and depreciation expenses on the corporate building exceed the related income. For example, the projected \$10,000 excess in the first year will reduce taxes by approximately \$3,700.

In summary, you have the potential to improve cash flow if you keep living expenses in line and implement the various recommendations.

John and Mary Smith
Cash Flow Statement
for the Years Ended 19X1 and 19X2
and for the Years Ending 19X3, 19X4, and 19X5
as of June 15, 19X3

| | 19X1 <u>Actual</u> | 19X2 <u>Actual</u> | 19X3 <u>Projected</u> | 19X4 <u>Projected</u> | 19X5 <u>Projected</u> |
|-------------------------------------------------------|-----------------------|-----------------------|--------------------------|--------------------------|--------------------------|
| Sources of cash | | | | | |
| Income | \$86,000 | \$ 97,000 | \$106,500 | \$112,500 | \$112,700 |
| Sale of farm | — | — | — | 55,000 | — |
| Mortgage payable ^{1,2} | — | — | 10,000 | — | 195,000 |
| Total | <u>86,000</u> | <u>97,000</u> | <u>116,500</u> | <u>167,500</u> | <u>317,700</u> |
| Uses of cash | | | | | |
| Living expenses | 85,500 | 92,050 | 90,435 | 92,040 | 85,500 |
| Investment in Discovery Oil | — | — | — | 10,000 | — |
| Investment in commercial rental property ² | — | — | — | — | 250,000 |
| Trust for children | — | — | 9,000 | 10,000 | 11,000 |
| Net decrease in liabilities | 5,000 | 5,500 | 3,100 | 3,800 | 15,000 |
| Investment in IRAs | — | 4,000 | 4,000 | 4,000 | 4,000 |
| Addition to personal residence | — | — | 10,000 | — | — |
| Purchase of marketable securities | — | — | — | 4,000 | — |
| Total | <u>90,500</u> | <u>101,550</u> | <u>116,535</u> | <u>123,840</u> | <u>365,500</u> |
| Net increase (decrease) | <u>\$ (4,500)</u> | <u>\$ (4,550)</u> | <u>\$ (35)</u> | <u>\$ 43,660</u> | <u>\$ (47,800)</u> |

Notes to the Cash Flow Statement

1. *Mortgage payable.* During 19X3 you will increase the mortgage on the house to obtain \$10,000.
2. *Commercial rental property.* In 19X5 you will acquire property at a projected cost of \$250,000, with a down payment of \$55,000 and a mortgage of \$195,000.

Retirement Analysis

If your current investments continue to produce at their present level, you will be able to retire to your vacation home in relative comfort. Your IRAs will provide additional income for use during your retirement years. Improving your stock portfolio will also increase your income. The retirement statement provides a projection of income and expenses by assuming that existing conditions continue.

The most effective way to improve your retirement situation is to improve your company pension plans. Sound real estate investments will provide additional income during this period.

In summary, improving your company pension plans and structuring your net worth with income-producing assets will help ensure that you have the desired income when you retire.

John and Mary Smith
Retirement Statement
for the Years Ended December 31, 19X1 and 19X2
as of June 15, 19X3

| | <i>Projected for 2005 as of*</i> | |
|-----------------------------------|----------------------------------|-----------------|
| | <u>12/31/X1</u> | <u>12/31/X2</u> |
| Income | | |
| Corporate retirement ¹ | \$18,000 | \$20,000 |
| Interest ² | 7,000 | 8,000 |
| Dividends ² | 6,000 | 7,000 |
| Social security ³ | <u>9,000</u> | <u>9,000</u> |
| Total | \$40,000 | \$44,000 |

| | | |
|------------------------------|-------------------|-------------------|
| Living expenses ⁴ | | |
| Food | \$ 6,000 | \$ 6,000 |
| Housing | 12,000 | 16,000 |
| Clothing | 3,000 | 3,000 |
| Transportation | 4,000 | 5,000 |
| Medical expenses | 3,000 | 3,000 |
| Insurance | 1,000 | 1,000 |
| Charity | 2,000 | 2,000 |
| Education | 1,000 | 1,000 |
| Entertainment | 4,000 | 4,000 |
| Taxes | 6,000 | 6,000 |
| Other | 3,000 | 3,000 |
| | <u>45,000</u> | <u>50,000</u> |
| Total | | |
| | <u>45,000</u> | <u>50,000</u> |
| Net surplus (deficit) | \$ <u>(5,000)</u> | \$ <u>(6,000)</u> |

*These figures do not include adjustments for inflation.

Notes to the Retirement Statement

1. *Pension.* We have based the projected payment on an analysis of the pension plan John's company provides him with.
2. *Interest and dividends.* We have based the increase on the assumption that your net worth will continue to rise.
3. *Social security.* We have based the projected payment on an analysis of the existing law.
4. *Living expenses.* We have based the reductions in living expenses on a subjective analysis of each area.

Disability Analysis

If John becomes permanently disabled, the family will have to significantly reduce its current standard of living. If the disability involves significant medical expenses, the problem worsens. The disability statement presents the figures on which these statements are based.

The most immediate way to deal with the problem is for both of you to obtain additional disability insurance, which will solve the problem in

the short term. In addition, any buy-sell agreements need to include a disability provision. In the longer term, you can invest an increasing portion of your net worth in income-producing assets that are not dependent on your personal involvement.

In summary, you have a potentially serious problem, but it can be corrected in both the short and the long term.

John and Mary Smith
Disability Statement
for the Years Ended December 31, 19X1 and 19X2
as of June 15, 19X2

| | <i>Projected for 2005 as of*</i> | |
|----------------------------------------|----------------------------------|--------------------------|
| | <u>12/31/X1</u> | <u>12/31/X2</u> |
| Income | | |
| Salary—Good-Food Catering ¹ | \$22,500 | \$22,500 |
| Interest | 2,500 | 2,500 |
| Dividends ² | 1,500 | 1,500 |
| Social security ² | 9,000 | 9,000 |
| Disability insurance ³ | <u>20,000</u> | <u>40,000</u> |
| Total | 55,500 | 75,500 |
| Living expenses ⁴ | | |
| Food | \$ 7,500 | \$ 7,500 |
| Housing | 19,000 | 19,000 |
| Clothing | 7,000 | 7,000 |
| Transportation | 8,000 | 8,000 |
| Medical expenses | 3,000 | 3,000 |
| Insurance | 3,000 | 3,000 |
| Charity | 6,000 | 6,000 |
| Education | 8,000 | 8,000 |
| Entertainment | 8,000 | 8,000 |
| Taxes | 9,000 | 9,000 |
| Other | <u>7,000</u> | <u>7,000</u> |
| Total | <u>85,500</u> | <u>85,500</u> |
| Net surplus (deficit) | <u><u>\$(30,000)</u></u> | <u><u>\$(10,000)</u></u> |

*Projected annual income and expenses assume that conditions remain constant and exist on the specified date.

Notes to the Disability Statement

1. *Salary.* Though John owns the company, the company is not profitable enough to pay his salary for an extended period if he becomes disabled.
2. *Social security.* We have based the projected payment on an analysis of the existing law.
3. *Disability insurance.* We have based the projected payment on an analysis of the disability policy John's company provides him with.
4. *Living expenses.* We have based the projected living expenses on a subjective analysis of each area. There were no significant changes in the projected expenses during 19X1 or 19X2.

Estate Analysis

Because of the life insurance you have, your family can maintain a reasonable, though lowered, standard of living if John dies. As the accompanying projections indicate, your children would have a difficult time if both of you die. As figures in the estate tax statement show, there are some possibilities for reducing the estate tax.

John wishes to ensure that your family can maintain its standard of living if he suddenly dies. You can do this by increasing John's life insurance to provide additional funds in the event of his death.

If you revise John's will to include the unlimited marital deduction and a credit exemption trust should he die first, this will eliminate paying taxes at the time of his death. If you establish the estate tax credit trust with Mary as John's income beneficiary, her estate, which will be left to the children, will not be taxed on the portion that was originally left by John. By making these two changes, you will reduce overall estate taxes by approximately \$63,000.

The buy-sell agreements will ensure that your family receives an equitable price for the two companies. Establishing a trust for the children will help in that it is not a part of either of your estates.

John and Mary Smith
Projected Income/Expenses After Death of Husband
for the Years Ended December 31, 19X1 and 19X2
as of June 15, 19X3

| | <i>Projected at Death of Husband*</i> | |
|------------------------------|---------------------------------------|------------------------|
| | <u>12/31/X1</u> | <u>12/31/X2</u> |
| Income | | |
| Estate income ¹ | \$30,000 | \$45,000 |
| Salary—Good-Food Catering | 22,500 | 22,500 |
| Interest | 2,500 | 2,500 |
| Dividends | 1,500 | 1,500 |
| Social security ² | 9,000 | 9,000 |
| Total | <u>65,500</u> | <u>80,500</u> |
| Living expenses ³ | | |
| Food | \$ 7,500 | \$ 7,500 |
| Housing | 19,000 | 19,000 |
| Clothing | 7,000 | 7,000 |
| Transportation | 5,000 | 5,000 |
| Medical expenses | 3,000 | 3,000 |
| Insurance | 2,000 | 2,000 |
| Charity | 4,000 | 4,000 |
| Education | 8,000 | 8,000 |
| Entertainment | 4,000 | 4,000 |
| Taxes | 15,000 | 15,000 |
| Other | 4,000 | 4,000 |
| Total | <u>78,500</u> | <u>78,500</u> |
| Net surplus (deficit) | <u><u>\$(13,000)</u></u> | <u><u>\$ 2,000</u></u> |

*Projected annual income and expenses assume that conditions remain constant and exist on the specified date.

Notes to the Projected Income/Expenses Statement After Death of Husband

1. *Estate income.* The 19X1 figure assumes that approximately \$300,000 in income-producing assets will earn about 10 percent per year. The 19X2 figures assume an additional \$150,000 of life insurance.
2. *Social security.* We have based these figures on an analysis of the existing law.
3. *Living expenses.* We have based the reductions in living expenses on a subjective analysis of each area. There were no significant changes in the projected expenses during 19X1 or 19X2.

John and Mary Smith Estate Tax Statement* for the Years Ended December 31, 19X1 and 19X2 as of June 15, 19X3

| | | | | |
|------------------------------|-----------|-----------|-----------|-----------|
| Gross estate | | | | |
| Life insurance ¹ | \$400,000 | \$100,000 | \$100,000 | \$400,000 |
| Net worth, estimate | 300,000 | 150,000 | 150,000 | 300,000 |
| Amount passed between | — | 342,500 | — | 59,375 |
| Total | 700,000 | 592,500 | 250,000 | 759,375 |
| Deductions | | | | |
| Funeral expenses | \$ 5,000 | \$ 5,000 | \$ 5,000 | \$ 5,000 |
| Administrative expenses | 10,000 | 10,000 | 10,000 | 10,000 |
| Total | 15,000 | 15,000 | 15,000 | 15,000 |
| Adjusted gross estate | 685,000 | 577,500 | 235,000 | 744,375 |
| Estate taxes | 55,250 | 137,475 | — | 199,218 |
| Available for distribution | \$629,750 | \$440,025 | \$235,000 | \$545,157 |
| Computation of estate taxes† | | | | |
| Adjusted gross estate | \$685,000 | \$577,500 | \$235,000 | \$744,375 |
| Less tax-free pass-through | 342,500 | — | 59,375 | — |
| Taxable estate | 342,500 | 577,500 | 175,625 | 744,375 |
| Gross estate tax | 102,250 | 184,475 | 47,000 | 246,218 |
| Credits | 47,000 | 47,000 | 47,000 | 47,000 |
| Estate taxes | \$ 55,250 | \$137,475 | \$ — | \$199,218 |

*The notes to the financial statements are an integral part of these statements.

†Based on 1984 tax tables.

Note to the Estate Tax Statement

1. *Life insurance.* You currently have life insurance totaling \$500,000. The policies may be summarized as follows:

| | |
|---------------------------------------|-------------------------|
| John—ABC Insurance Co., ordinary life | \$100,000 |
| BCD Insurance Co., ordinary life | 100,000 |
| XYZ Insurance Co., term life | <u>200,000</u> |
| Subtotal | 400,000 |
| Mary—BCD Insurance Co., ordinary life | \$ 75,000 |
| BCD Insurance Co., term life | <u>25,000</u> |
| Subtotal | <u>100,000</u> |
| Total | <u><u>\$500,000</u></u> |

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